

**THIRD IN A SERIES OF SUBCOMMITTEE HEARINGS
ON PROTECTING AND STRENGTHENING
SOCIAL SECURITY**

HEARING
BEFORE THE
SUBCOMMITTEE ON SOCIAL SECURITY
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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**THIRD IN A SERIES OF SUBCOMMITTEE
HEARINGS ON PROTECTING AND
STRENGTHENING SOCIAL SECURITY**

THURSDAY, MAY 26, 2005

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:05 p.m., in room B-318, Rayburn House Office Building, Hon. Jim McCreery (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE

May 19, 2005

No. SS-3

CONTACT: (202) 225-9263

McCrery Announces Third in a Series of Subcommittee Hearings on Protecting and Strengthening Social Security

Congressman Jim McCrery (R-LA), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold the third in a series of Subcommittee hearings on protecting and strengthening Social Security to hear the views of Members of the House. **The hearing will take place on Thursday, May 26, 2005, in room B-318 Rayburn House Office Building, beginning at 2:00 p.m. or immediately following the conclusion of the full Committee hearing.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from Members of the House only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee and for inclusion in the printed record of the hearing.

BACKGROUND:

This hearing provides Members of the House the opportunity to testify on Social Security issues of importance to their constituents, including views on how to protect and strengthen this vital program.

In announcing the hearing, Chairman McCrery stated, "Social Security affects the lives of nearly every American, and the deliberation regarding its future is far too important for partisan politics. I look forward to working with all my House colleagues on this historic opportunity to thoughtfully and carefully consider all options to strengthen and update this essential program."

FOCUS OF THE HEARING:

The hearing will focus on the views of Members of the House regarding how to protect and strengthen Social Security.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "109th Congress" from the menu entitled, "Hearing Archives" (<http://waysandmeans.house.gov/Hearings.asp?congress=17>). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance

with the formatting requirements listed below, by close of business Thursday, June 9, 2005. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://waysandmeans.house.gov>.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman MCCRERY. The meeting will come to order. Good afternoon. Welcome to the third in our series of Subcommittee hearings on protecting and strengthening Social Security. Nearly 70 years ago, when President Franklin D. Roosevelt (FDR) signed the Social Security Act (P.L. 74-273) into law, he said this law, too, represents a cornerstone in the structure which is being built, but is by no means complete.

Indeed, Social Security has become a cornerstone of protection against poverty for millions of Americans. Yet, without change, we can see that the security of Social Security is at risk due to our country's aging population. Americans are living longer, families are having fewer children. As a result, the number of people receiving Social Security is growing faster than the number of workers supporting the program, causing serious financial challenges in the years ahead.

President Bush, like President Clinton before him, has traveled across the Nation to inform Americans about the fiscal challenges facing Social Security and the opportunities available to strengthen this vital program. I commend President Bush for his commitment and his leadership, and I commend every Member of Congress who has introduced a plan to save Social Security, or who has thoughts,

willingly given at the hearing today, for their courage and foresight. President FDR had the foresight to view Social Security as a program that would change to meet the evolving needs of Americans. As Members of Congress, it is our duty to thoroughly and carefully examine all ideas to strengthen and update Social Security. We welcome all our colleagues' suggestions on how best to achieve that goal.

We have a distinguished list of witnesses with us today. Mr. Shaw, if you want to go ahead and take your seat at the witness stand, we will get started as soon as I allow my esteemed Ranking Member, Mr. Levin, the opportunity to make opening remarks.

Mr. LEVIN. Thank you, Mr. Chairman. I join you in saying this hearing is a good idea, and appreciating our colleagues joining us for this hearing. The more citizens have heard about the President's privatization proposals, the less they have liked them, and that has cut across all lines, including age. It is interesting in that regard, the Columbia Broadcasting System poll of today, I think, underlines that. This is what one of the releases says:

"It is a troubling sign for the President, those who have heard a lot about his Social Security plan, are the most likely to say it is a bad idea. Furthermore—and everyone should understand this—the more we Democrats have heard real-life experiences from our constituents, the more we have been determined to preserve Social Security, a guaranteed benefit for retirement, for disability, and for survivors. Now, some of the proposals, and we are going to hear some of them today from our colleagues, have been straightforward. Some of them would preserve Social Security and handle the issues in different ways. I will not comment on that now. Others have not been nearly as straightforward. Some have said they want to strengthen Social Security, when really the clear import and clear line of those proposals has been to replace Social Security."

My feeling is this: that it doesn't matter what kind of sheep's clothing you try to put on a wolf, it is still a wolf. Privatization is basically a wolf that, over time, would eat up Social Security's guarantee. The President's continued insistence—and he has repeated it in recent days—on privatization really stands in the way of a bipartisan effort to address the shortfall in Social Security. He made privatization in the State of the Union his first order of business. So, we Democrats have very much focused on it, with all of the benefit cuts and the borrowing, and we are going to hear from our Democratic colleagues underlining those very points. So, we welcome our colleagues here, and welcome the opportunity to hear further about their plans. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Levin. First, the Ranking Member of the full Committee on Ways and Means, the Honorable Charles Rangel, who undoubtedly has much to offer in this debate and this effort to save Social Security, as our first witness. We welcome you, Mr. Rangel, and you may proceed as you prefer.

**STATEMENT OF THE HONORABLE CHARLES B. RANGEL, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW
YORK**

Mr. RANGEL. Thank you, Mr. Chairman. I do hope I would have an opportunity at some point to be a part of the solution and not of the problem that we face with Social Security. I hope, further, that today, Thursday, May 26, a couple of minutes after 3:00 p.m., that maybe this Subcommittee can make some history. You said it was a serious problem that we face. There is no question that it is a problem. It is certainly not a problem that House Members and the Senate cannot fix.

Recently the other body had a problem with judges and the filibuster. They won. They won because they decided to talk with each other. They did not make good judges bad or bad judges good, they did not take away the filibuster, they did not take away the problem, but they decided that the institution was so important that they were willing to talk and to compromise their positions to see whether or not they could work their way out of a bad situation that was moving toward the polarization that now exists in this House.

In my 35 years as a Federal legislator, it never entered my mind that any party would ever think about touching Social Security unless it was in a bipartisan way. Why? It is a complex piece of legislation; whenever you pay more out than you take in, fixing it means somebody is going to lose. The loser should have at least the sense of confidence that it was not a partisan issue. The Republicans and Democrats tried to work it out the best they could. They wish we would have done better, but they knew we did our best. I do not think the American people can ask for more than that. I cannot think of anything that has been done since the President has made this a priority that would allow anyone to believe that he or the majority party intends to do anything in a bipartisan way, except we are prepared to accept Democratic ideas. You were present in the White House, Mr. Chairman, when the President said, or asked, that none of us be critical of his plan until he gets a bill together. Keep your powder dry.

Now that has changed because clearly he is not going to give us a bill. The President had decided to go to 60 cities in 60 days to sell private accounts and to be critical of those people that oppose private accounts. This is no way to create the atmosphere for bipartisanship. I do not run away from it, because being partisan does not annoy me; it is just that you cannot get the job done in that fashion, and that is the reason why we have this problem with the Central American Free Trade Agreement today.

Having said that, what is the issue that encourages even more polarization and the failure for us to sit down and try to work this thing out? One would be the hearing today. There wasn't a lot of talk about what we intended to accomplish today, so that I could try to meet the Chair half way, knowing that there is a plan.

Because, after 34 years, I do not want to be a part of 435 people throwing plans around, when I belong to the awesome and powerful Committee on Ways and Means, where we do not just ask people for plans, we make things happen. We come from districts. We are appointed to this Committee because we have the—not the po-

litical courage, but we have the type of districts that allow us to make the hard decisions. That is why we are on the Committee, in part. So, I would have thought for the initial launching of exploring where we go from here, that bipartisanship would at least have been some part of it, something to hang your hat on, to say it was not enough, but at least they tried. So, that is behind us.

So, from a very political point of view—since I don't have a lot of options left—what appears to be the major obstacle in us sitting down, not as Republicans and Democrats, and saying what can we do? It appears to me that it is private accounts. Now, the President has made it abundantly clear to me that as long as he is President he is going to be supporting private accounts. The President, as well as all of the witnesses that testified in front of the Full Committee, know that private accounts have nothing to do with solvency. But everyone recognizes that solvency is the issue that frightens the American people. Will they be able to continue to get their checks, and will those who follow be able to have their disability benefits, their survivor's benefits, and their retirement benefits?

What a great coup you could have, Mr. Chairman, or the President, or the Chairman of the Full Committee, or the leader of the Majority party, in saying: We take this off the table. We are concerned with solvency. Now, let us get together and see what we can agree about, agree upon. But, if you decide that it is in the Nation's interest, the Congress' interest, the Majority party's interest, to proceed in the way that you have—in saying that private accounts will not dismantle Social Security, private accounts will not cost \$2 trillion, private accounts are the same as thrift accounts, and the same thing you have everyone else should have—if we are going to go down this, we are just debating an issue that has nothing to do with solvency, then let us do it.

If, on the other hand, there is an option where we can say we are going to work together, we are going to deal with solvency, and at some other time, if we want to have incentives for savings that are unrelated to Social Security, I think that makes a lot of sense. But since my time has run out, I thank you for the courtesy of the additional minutes. I thank you for this opportunity.

[The prepared statement of Mr. Rangel follows:]

**Statement of The Honorable Charles B. Rangel, a Representative in
Congress from the State of New York**

Mr. Chairman, thank you for holding this hearing. I think it is important that the Committee hear from members of the full House before we undertake the process of drafting and marking up a Social Security reform bill.

I believe that the most important element of Social Security reform needs to be that we engage in a true bipartisan effort.

Social Security is—or will be—central to the lives of nearly every American. If we don't do the job right, we'll hear from them. Indeed, we'll probably hear from them even if we do the job right. There is no pain free solution.

We'll be able to make the tough choices required here only if we have the kind of atmosphere of trust and confidence in each other that a true bipartisan process can bring us.

The major thing standing in the way of such an atmosphere—and thus standing in the way of progress on Social Security—is privatization.

Privatization has its origins among conservative intellectuals looking for a way to replace Social Security. It requires deep benefit cuts. It requires us to borrow trillions of dollars for decades—on the promise that if we just leave the new system

in place and untouched, we'll make up the losses fifty, seventy-five, or a hundred years from now. And it replaces guaranteed benefits with a guaranteed gamble.

As important as it is to strengthen Social Security, our first priority must be to do no harm. And privatization would do grave harm, to Social Security and to our budgetary and economic future.

Social Security does not face an imminent crisis. We have time to do the job right. We don't have to act for action's sake.

If privatization remains the real goal for the President—and he personally has made it clear to me that it is—we have time to wait until he and the majority are willing to make saving Social Security the real goal.

I urge my colleagues to drop privatization. And join with us in a bipartisan effort to save Social Security, instead of a partisan effort to replace it.

However the majority chooses to proceed on the substance, I would ask that the Chairman continue with the process he has followed so far, and which this hearing is a part of.

In 1983, the Committee on Ways and Means held 11 hearings on the recommendations of the Greenspan Commission. There were three full Committee hearings and eight days of hearings in various Subcommittees. These 11 hearings were *in addition* to general hearings on the problem that had been held earlier—the kind of hearings we are now having.

These 11 hearings were followed by four days of Subcommittee mark-up sessions on a draft bill, and then two days of full Committee mark-up of the Subcommittee recommendations.

We should follow that example and have hearings on various components of the Chairman's mark before we act on it. This issue is too important for the Committee to act without a full understanding of the legislation and its implications.

If we do act without that understanding, we may not recognize the full nature of what we are voting upon. If we don't learn of problems until after the bill is law and the public begins to scrutinize it.

Those of us who have served on the Committee for a while remember our experience with catastrophic health care. If we repeat that experience with Social Security, those who support the legislation may pay a heavy price.

The need for such hearings is all the more important given the Chairman's intent to broaden the legislation beyond Social Security to address other critical retirement issues such as pensions, savings, and long-term care.

I would suggest that we hold at least as many hearings after we unveil the legislation as we hold beforehand.

I applaud the Subcommittee and full Committee Chairmen for the series of hearings they are holding. They are giving this subject the attention it deserves. I hope that the unveiling of legislation is only a stage of this process and not its endpoint.

I would close by asking the Chairman if he and Mr. Thomas intend to hold hearings on the legislation they develop, or if they intend to push a package through without determining if it can withstand careful scrutiny.

Thank you.

Chairman MCCRERY. Thank you, Mr. Rangel. The Ranking Member of the Subcommittee and I talked before the hearing began, and it is our view that we should try to get as many Members through without questioning as possible, since there are votes which will occur fairly soon, and then some people probably want to go home. So, if it is okay with the Members of the Subcommittee, we will continue to hear from Members who are present who have asked to testify today. If you have just a burning question, I suggest you get my attention and we will certainly allow that. Otherwise, we will proceed and go to Mr. Shaw.

Mr. HULSHOF. Mr. Chairman, would it be okay for Members then to insert statements, perhaps to respond to some of the questions or hypotheticals being proposed, so that we could at least go on record to explain, for instance what the Ranking Member just had to say; if I had a comment to that, could I insert that in the record?

Chairman MCCRERY. Without objection. Any Member wishing to insert a statement in the record may do so.

STATEMENT OF THE HONORABLE E. CLAY SHAW, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. SHAW. Thank you, Mr. Chairman. I very much appreciate you and Mr. Levin having this hearing. I think it is going to shed a lot of light on the direction this Congress should go, as well as a light on some of the problems we have at this point in trying to work together as Republicans and Democrats. I do come to this table with a great deal of history behind me, having chaired this Subcommittee for 6 years. Going back a number of years, my good friend, Charlie Rangel, will certainly recall that he and I sat with Mr. Archer a number of years ago, following the White House conference, to solve the problem of Social Security, which I might say, that President Clinton not only attended, but he sat with us the whole day and we worked very hard to work together in a bipartisan way.

None of us on the Republican side give any preconditions to sitting down with the President. We recognized that we were facing a huge problem, and we were ready to work with President Clinton, as President Clinton was certainly willing to work with us. I have long held the opinion that if it were not for the impeachment process that this House went through, that we would have accomplished this during the Clinton Administration, as President Clinton himself advised me on two occasions that he was ready to go forward. We never could, as Republicans, bring the Democrats aboard in order to accomplish this.

Fact: in 2017, we are not going to have enough Federal Insurance Contributions Act (FICA) taxes coming in to pay benefits. Period. That is the end of the story as far as what the problem is. Fact: Social Security was created back when there were 40-some workers per retiree. Now we are down a little over three. Soon it is going to be two. Fact: two workers cannot produce enough FICA tax in order to take care of one retiree.

So, what are we going to do? To do nothing is simply to say, well, we are either going to have cut benefits or raise taxes, we are going to have to cut other Federal benefits or borrow a lot of money. Fine. If we go decide we are going to borrow a lot of money, we are going to have a \$26 trillion shortfall over the next 75 years. That cannot sustain our economy. This country, with the great size of our economy, cannot sustain a \$26 trillion shortfall.

So, what do we do? We forget our kids? Do we forget the fact that they are going to be old, too? I talk to college students very often. The first thing I say is, you know something? You do not realize this, but someday you are going to be old. You are going to have to, all of your working years, pay into a pension system, a Federal pension system which is not going to be there for you unless your Congress acts in order to add something to Social Security. Now, the individual accounts, can they solve the problem with Social Security? Yes, if they are an integrated account. Integrated simply means that those accounts will be available down the road when the worker reaches retirement age. That is exactly what these accounts, all of those programs do that I know about.

Do you have to dismantle Social Security or do you have to change it in any way in order to reach solvency? No, you do not. We heard in this room, 2 days ago, the Social Security actuary, Mr. Goss, testify that the plan that is before this—the plan that I have before this Committee did reach solvency. In fact, over 75 years, it would even create a surplus. Create a surplus. Are you going to have to borrow in order to get there? Yes. Do you have to divert the FICA tax? No. I do not do that. I leave it totally alone. I can tell you, we can even improve the benefits that we have today in order to improve the benefits.

I am feeling like a commercial. Wait, there is more. We increase the widow or widower's benefit of low-and average-wage couples by as much as 50 percent in my plan. For widows with disabilities, we help those with insufficient wages to qualify for the disability benefits. Divorced spouses, divorced women, no longer have to wait 2 years to receive spousal benefits of their ex-spouse if their ex-spouse marries somebody else. For working women it provides a child care credit equaling 25 percent of the homeowner's previous wages up to 5 years. If the worker is carrying for a child aged six or under, this helps improve the benefits of persons who take time out of the work force in order to raise their kids.

We hear an awful lot about this. For Federal workers, State and local workers, including the teachers, which we have heard a lot about, it reduces the Government Pension Offset of spousal benefits from two-thirds to one-third. This is something that our friends and the schoolteachers who have separate pension plans have been fighting for. It is in this bill, and this bill goes to solvency. We simply take an amount equal to 4 percent of the wages, up to a cap of 4 percent, and give a refundable tax credit which goes into to a pre-approved personal savings account, and the money is then invested. The savings account is chosen by the worker himself from a pre-approved list. The money goes in there. Now, if the worker should die before retirement, it is inheritable wealth. What is wrong with that? Who can say that is wrong? We know right now that you, except for survivor benefits, lose anything that you paid into Social Security.

Does this in any way affect the Social Security as it is today? No. When the worker retires, the worker retires; they are entitled to the higher of either existing benefits, which are guaranteed, or the amount that annuitizing their individual account would add to their retirement benefits. It is good. It solves Social Security for all time. But, I can tell you, though, to tell the President that he has got to drop his plan before the Democrats would sit down with him—that is ludicrous. Nobody is going to say I will abandon my plan if you come and talk to me. That is ridiculous. The Democratic Party, the great Democratic Party that was responsible—not for inventing, because other countries had Social Security before we did—but for bringing Social Security to this country in the mid-thirties, is now becoming part of no. That is too bad, because there are some great ideas on your side of the aisle, great ideas that should be brought forward.

If we can stop the leadership of the Democrat Party from stonewalling us from coming up with a solution, then we are making progress. Groups that have opposed individual accounts have

come out and said, well, if there are add-ons, we could agree we could possibly work with that. We have organized labor now that is beginning to look at it, with the Teamsters beginning to look at it. We are making progress; I can tell you, and I will say this to my Democrat friends, you are not going to be with us on the landing unless you are with us on the take-off. That is what you have got to do. Come aboard. Give us your ideas. Work with us and let us get this thing done. This is not about the next election. This is about the next generation. That is who we are working for, and that is who I am working my heart out to be able to say that I helped save Social Security for you kids now, that can you enjoy it in your old age just as I will enjoy it in mine

[The prepared statement of Mr. Shaw follows:]

**Statement of The Honorable E. Clay Shaw, Jr., a Representative in
Congress from the State of Florida**

The Social Security Guarantee Plus Act of 2005, H.R. 750

1. Prepared Remarks of Chairman Clay Shaw on the *Social Security Guarantee Plus Act of 2005*
2. Why Social Security Must be Strengthened
3. Keeping Social Security's Promise
4. How the Guarantee Plus Plan Works
5. Increasing Protections for Today's Women
6. Enhancing Income Security for Minority Workers
7. Promoting Fiscal Responsibility
8. Questions and Answers

Chairman McCrery, Ranking Member Levin, and members of the Subcommittee, thank you for the opportunity to talk with you today about the protecting and strengthening our Social Security system.

Whether we live in prosperous or uncertain times, American families need economic security—the kind of economic security that Social Security provides. For 70 years, Social Security has protected workers and their families from falling into poverty if a breadwinner retires, suffers disability, or dies. Social Security has endured, unlike many other government programs, because its architects designed it to be an earned right and to treat all workers fairly.

Social Security has evolved over the decades, strengthening its protections and finances along the way. However, our nation's demographics and economics are fundamentally changing, and Social Security's ability to continue meeting its promises is threatened.

President Bush has made it clear that time has come for an honest, straightforward, and realistic discussion about the future of the Social Security system. As the immediate-past Chairman of the House Subcommittee on Social Security, I have spent an enormous amount of time crafting a plan that would save Social Security for future generations. For the last six years, I have proposed the *Social Security Guarantee Plus Plan (HR. 750)*, a measure that I originally created with then-Ways and Means Chairman, Bill Archer.

The Social Security Guarantee Plus Plan I reintroduced in February will enable Social Security to continue fulfilling its vital role in the lives of all Americans without touching the current Social Security system. **In other words, my plan saves Social Security for the next 75 years and beyond, without raising taxes, lowering benefits or changing the retirement age. And it creates a \$3.1 trillion surplus for the government.**

First, the Guarantee Plus Plan keeps intact the Social Security safety net. Promised benefits, including cost of living increases, are guaranteed for people receiving benefits today, tomorrow and for all future generations.

Second, the plan treats all workers fairly. Workers have paid into the system, it's their money, and we must protect and enhance their investment. It's not fair to workers to raise their payroll taxes or lower their benefits. Nor is it fair for the government to tell workers to work longer. That's why my plan does not raise taxes, does not lower benefits, and does not change the retirement age.

Third, Social Security payroll taxes belong to the workers who paid them. My plan gives workers a real ownership stake in Social Security by allowing them to choose to receive a tax cut to invest directly in prudent, individually-selected, market in-

vestments. For the first time, a nation of savers, not the government, will own and control the assets backing Social Security. Should an individual die before becoming eligible, the balance of their money will be passed along to their heirs.

Fourth, under my plan, Social Security can be counted on for the next 75 years, and beyond. Real assets guarantee current and future benefits, establishing a sound and sustainable financial footing. No longer will there be a need to periodically increase taxes or lower benefits to keep the program working.

Beyond keeping these promises to all Americans, we must also do more to improve Social Security for the women of our nation. Because of their longer life expectancies and lower earnings, women are more likely to suffer poverty in old age. Social Security is a vital safety net for these women. In addition, because benefits are based on earnings, women are disadvantaged when they choose to stay home to raise their children. The Guarantee Plus Plan protects our daughters, our mothers, our aunts and our grandmothers, not only by securing the future of Social Security and guaranteeing full benefits, but also by enhancing benefits for widows, divorced spouses, and working mothers. These benefits become available immediately in my bill.

Here's how the Social Security Guarantee Plus Plan works. The plan guarantees full, promised, current law benefits for all workers, whether you are 6 or 65. Just as companies must back your pension plan with real assets, the Guarantee Plus Plan saves Social Security by setting aside real assets, not IOUs, to pre-fund benefits. These assets are saved in each worker's own account, thereby providing workers the opportunity to create real wealth for themselves and their families.

My plan is voluntary. Workers who choose to participate will receive a refundable credit of up to 4% of their earnings to establish their own Social Security Guarantee Account. Workers would have several prudent, approved options for investing their personal account funds. The money in these accounts would grow tax-free. No withdrawals would be permitted until a worker starts receiving benefits to ensure that the money is preserved for retirement.

At retirement or when the worker becomes disabled, the worker will receive 5% of the Guarantee Account paid directly to the worker and the rest is used to help pay full, guaranteed Social Security benefits. But that's not all.

In addition to the much needed improvements in benefits for women I mentioned, my plan eliminates the retirement earnings penalty for all workers age 62 and older and reduces the so-called Government Pension Offset affecting spouse and survivor benefits to certain government workers.

Other plans may cost less, but that's because they cut benefits or raise taxes. If our goal is to pay full promised benefits, boost women's benefits, and return Social Security to financial independence, the Guarantee Plus Plan is the lowest-cost proposal to date. The Guarantee Plus Plan does all this and pays for itself over the seventy five-year actuarial period and creates a **\$3.1 trillion dollar surplus**, and that's confirmed by the Social Security Administration's Office of the Actuary in the 109th Congress. Even under the most conservative estimates, the Guarantee Plus Plan allows the new Social Security system to generate surplus cash in the latter part of the century, actually adding black ink to the government's bottom line.

My plan uses general revenues to fund the transition to a solvent Social Security program. Even assuming this money is borrowed, my plan pays back every borrowed dollar plus interest within the seventy five-year evaluation period. My plan also requires that Social Security surpluses created by the plan be dedicated to reducing publicly-held debt. Not only would we pay off the mortgage on Social Security, we would leave workers with substantial account balances and the federal government with excess cash.

The Guarantee Plus Plan also meets or exceeds all of the President's principles for reform—pays promised benefits to retirees, near-retirees, and all workers; no tax increases; no government investing; fully preserves disability and survivor benefits; offers individually controlled, voluntary personal retirement accounts that will augment and ultimately save Social Security. In addition, my plan is consistent with the first option to establish personal accounts recommended by the President's Commission to Strengthen Social Security.

President Bush has made the strengthening of Social Security now and for generations to come a top priority. Americans are showing their willingness to explore new ideas to strengthen this vital program, since the old ways must be improved upon for future generations. Now is the time for a straight-forward, honest and realistic discussion about the future of Social Security. The longer we wait to address the coming crisis, the more difficult and expensive the job will be down the line.

From the time of Social Security's enactment until today, the history of the program's evolution has demonstrated that while everybody has his or her own ideas on how to strengthen the program, progress toward that goal is only achieved

through bipartisan cooperation. It's long past time for us to lay all our best thoughts on the table and work together to build on our success to make a stronger Social Security system that is an asset to all and not a liability to our children and grandchildren.

The Social Security Guarantee Plus Plan *Why Social Security Must Be Strengthened*

Social Security can't cope with the upcoming demographic changes facing our country.

People are living longer and families are having fewer children. That means the number of workers supporting each retiree will continue to fall. In 1945 there were over 40 workers for every retiree; in 1960 there were 5 workers, and within a generation there will be only about 2 workers for each retiree. Without changes to the system, Social Security will be unable to bear the burden of the demographic challenges as fewer and fewer workers pay into the system to finance the benefits of retirees.

The President's Commission and Social Security Trustees from both Republican and Democrat Administrations agree—cash flow deficits start in approximately the next fifteen years.

The 2005 annual report of the Social Security and Medicare Board of Trustees, and the 2000 Trustees report (whose trustees included the Clinton Administration's Treasury and Labor Secretaries plus the Commissioner of Social Security) concluded precisely the same thing as the President's Commission—that in approximately twelve years (2017 according to the 2005 Trustees report) the system will face growing cash shortfalls.

In 2041 the trust funds are projected to be completely exhausted, and the system will only be able to pay 74% of promised Social Security benefits, with even less of promised benefits payable in subsequent years.

Without reform, we would need benefit cuts, tax hikes, increased borrowing, or cuts to other government programs.

Between 2017 and 2041, government bonds credited to the trust funds will keep the system going. These bonds will be honored, but only by increasing federal debt, cutting other spending, or raising taxes, in the absence of budget surpluses. In 2017 the cash shortfall is projected to be about \$9 billion, and by 2041 is projected to be about \$358 billion (in today's dollars).

The Social Security system is unfair to today's workers who already can expect only a low rate of return on their contributions. This rate of return is only expected to fall further in the future if we do nothing and there are no changes to the current system.

Inaction is Social Security's greatest enemy.

The longer action is delayed, the more the cost and the risk to Social Security increases.

The Social Security Guarantee Plus Plan *Keeping Social Security's Promise*

1. Preserves and Guarantees the Social Security Safety Net
 - Fully preserves and guarantees Social Security benefits for life.
 - Fully preserves and guarantees cost-of-living adjustments.
 - Fully preserves and guarantees survivor and disability benefits.
 - No exposure to individual investment risk.
2. Treats All Workers Fairly
 - No tax increases.
 - No increase in retirement age.
 - No unfair burden on young and future workers.
 - Eliminates the senior work penalty, helping seniors who want or need to work.
3. Worker Ownership
 - Workers voluntarily elect an annual refundable income tax credit equal to 4% of wages up to \$1,000, to be deposited in their own Guarantee Account.
 - Workers—not the government—choose where to invest their retirement savings.
 - Accounts may pass tax-free to the heirs of workers who die before retirement—creating real wealth for many for the first time.

4. Saves Social Security for 75 years and Beyond

- In the 109th Congress, the Actuaries of the Social Security Administration confirm the plan saves Social Security beyond current law (2041) and beyond 75 years.
- Updates Depression-era pay-as-you-go financing structure to reflect today's aging population, thereby placing Social Security on a sustainable path so there are no more threats of future tax hikes or benefit cuts every few years.
- Creates a saving plan within Social Security to pay future benefits.
- Real assets back benefits, not IOUs.
- Pays for itself and improves the government's bottom line in the long run.

5. Enhances Benefits for Women

- Increases widows' benefits.
- Expands eligibility for widows with disabilities and for divorced spouses.
- Helps eliminate the homemaker penalty experienced by women who choose to stay at home to take care of their children.
- Lessens benefit reductions applied to spouses who work for certain state and local government jobs not covered by Social Security.

6. Consistent with the President's Principles, the President's Commission

- President—Guarantees promised benefits to retirees, near-retirees, and all workers; no tax increases; no government investing; fully preserves disability and survivor benefits; offers individually controlled, voluntary personal retirement accounts that will augment Social Security.
- President's Commission to Strengthen Social Security—Consistent with the Commission's first option to establish voluntary accounts.

The Social Security Guarantee Plus Plan

How the Guarantee Plus Plan Works

The *Social Security Guarantee Plus* plan saves Social Security by updating the Depression-era pay-as-you-go financing system. Rather than just taxing workers more and more to meet benefit commitments, the Guarantee Plus Plan gives workers the opportunity to save money today to ensure payment of full promised benefits tomorrow without increasing payroll taxes.

When benefits are funded in advance and take advantage of the better rates of return available in the equity and bond markets, less in taxes is needed to pay full benefits and the program's cash shortfall is eliminated, thus saving Social Security.

For the first time ever, real assets will back benefits, instead of government IOUs that simply represent claims on future taxpayers.

1) Each year (starting with 2005), workers who pay Social Security payroll taxes will receive a refundable tax credit equaling 4% of wages up to a cap of \$1,000 (in 2005), with the cap indexed to annual increases in wage growth. The tax credit is automatically deposited into the worker's account.

2) Workers will have a choice of qualified asset managers to invest their accounts. The investments would be required to meet safety and soundness standards. A Social Security Guarantee Board, composed of 6 members appointed by the Board of Trustees and similar to the Federal Retirement Thrift Savings Board, will establish regulations for investment policies.

3) Workers will have a choice of three investment mixes for their contributions—60/40, 65/35, or a 70/30 mix of equity index funds and high-grade corporate bonds. A nationwide education campaign will be launched to help workers learn about their options before they make a selection. Workers who elect to participate in a Guarantee Account but do not choose an investment option will be automatically placed in a standard investment option. Workers will be able to change their asset manager each year. Account earnings accrue tax-free. Accounts cannot be accessed for any reason prior to retirement or disability.

4) Once a worker begins receiving retirement, disability or survivor benefits, the worker will receive 5% of the account balance to take as a lump sum. Social Security will calculate a monthly payout from the account based on the remaining account balance. The calculation accounts for expected future inflation, earnings on the account, and survivor benefits. Men and women are treated equally, even though women tend to live longer on average. Workers will receive the higher of their promised Social Security benefit or the payout based on the account. Nobody receives a benefit cut, regardless of how the account performs.

Workers are guaranteed the higher of the current-law Social Security benefit or the annuity based on the account. Nobody receives a benefit cut, regardless of how the account performs.

5) Every month, the beneficiary will receive a single check from the Social Security Administration. Every month, the payout from the account will be transferred to the trust funds to help pay benefits. Even if the account is depleted while the individual is still collecting benefits, he or she will still continue receiving the full Social Security benefit. If the payout from the account is higher than the individual's promised Social Security benefit, then he or she will receive the higher amount for life.

- Workers who die *before* collecting benefits may leave their accounts to their heirs tax-free.
- Workers who outlive their account balances continue to receive full benefits financed wholly from the trust funds.
- Workers who are not eligible for Social Security once they reach full retirement age will receive their account balance as a lump sum.
- Workers who choose not to collect Social Security may leave their accounts to their heirs tax-free.

The Social Security Guarantee Plus Plan

Increasing Protections for Today's Women

The Social Security Guarantee Plus Plan provides increased protection for women. It secures Social Security's finances, ensures full promised benefits and cost-of-living adjustments, and enhances benefits for widows, divorced spouses, and working mothers. Finally, the Guarantee Plus Plan strengthens Social Security without exposing women to individual market risk.

Women are heavily dependent on Social Security benefits during retirement, because they often have little or no pension savings or other sources of income. In 2002, Social Security provided the only source of income for 29 percent of unmarried women age 65 and older.

Several features of the Social Security program are important to women: lifetime benefits, inflation protection, a progressive benefit formula, and family benefits. The Guarantee Plus Plan fully protects these features of Social Security, ensuring women will be financially secure during retirement.

In addition, the Guarantee Plus Plan improves benefits for women by increasing widows' benefits, providing credit for years spent out of the workforce caring for young children, and expanding eligibility for divorced spouses and disabled widows. These enhancements respond to trends in marriage, child-rearing, and labor force participation. Most importantly, they will help prevent more women from living in poverty in old age.

Benefit improvements in the Guarantee Plus Plan:

- **Widows**—For all new and current widow beneficiaries in 2006, increases widow(er)s' benefits from 100% of the deceased worker's benefit to 75% of the couple's benefit while both were alive, up to a maximum of the average retiree's full benefit amount, thereby increasing the widow(er) benefit of low-wage couples by as much as 50%.
- **For widows with disabilities**—For all new disabled widow beneficiaries in 2006, allows widows of any age with disabilities to qualify for benefits based on the deceased workers' earnings. This helps widow(er)s with disabilities who may have insufficient wages to qualify for disability benefits.
- **For divorced spouses**—For all new divorced spouse beneficiaries in 2006, divorced women would no longer need to wait two years to receive spouse benefits if their ex-spouse marries someone else.
- **For working women**—For all new and current beneficiaries in 2006, provides a child-care credit equaling 25% of the homemaker's previous wages for up to 5 years, if the worker is caring for a child age 6 or under. This helps improve the benefits of persons who take time out of the workforce to care for young children.
- **For certain State, Local, and Federal workers, including teachers**—For all new and current beneficiaries in 2006, reduces the Government Pension Offset (GPO) of spousal benefits from $\frac{2}{3}$ to $\frac{1}{3}$ of the pension from non-covered work. In December 2003, three-fourths of persons affected by GPO were women.

Enhancing Widow's Protection

The Guarantee Plus Plan improves benefits for widows and enables more disabled widows to receive benefits. These provisions will help improve the eco-

conomic security of elderly and disabled women. In addition, widows may inherit the Guarantee Account of their spouse, further increasing their financial security and retirement wealth.

Widows are one of the largest and most vulnerable groups among the elderly beneficiaries. In 2002, 16% of elderly widows were in poverty, compared to only 10.4% of all the elderly. Widows and widowers with disabilities are especially vulnerable—their average monthly benefit was only \$583 in December 2004, compared to \$920 for aged widows and widowers and \$894 for disabled workers.

The Guarantee Plus Plan increases benefits for widows.

Under Social Security today, widows receive benefits that are between 50% and 67% of the benefits the couple received when both were alive. The Guarantee Plus Plan would allow widows to receive either 75% of the couple's combined benefit before the worker died, or the average retired worker benefit, if lower. In no case would a widow receive less than under current law.

Widows and widowers with disabilities receive additional benefit protections.

Under current law, a widow with a disability may receive benefits if she is age 50–59 and became disabled within 7 years of her spouse's death. The Guarantee Plus Plan expands this protection by allowing widows with disabilities of any age to receive benefits, regardless of when the spouse died.

Also, young widows who become disabled would be able to receive their widow's benefits earlier than age 50. The median family income for disabled beneficiaries under age 50 is about half the income of non-disabled workers. In addition, women who are not married and workers under age 40 have the highest poverty rates among the disabled. Around 36% of unmarried women who are receiving disability benefits are poor, and about one-half are poor or near-poor.

Providing Economic Security for Divorced Women

Divorced women would no longer need to wait to receive spouse benefits if their ex-spouse marries someone else with two years. Under current law, in certain circumstances where the retired individual is working or hasn't started collecting benefits, women must wait two years after divorcing before they may receive divorced spouse benefits. The Guarantee Plus Plan eliminates this two-year waiting period when the ex-spouse marries someone else.

Women would receive equal shares of the couple's contributions in the event of divorce. The contributions and accumulations to a couple's Guarantee Accounts during a marriage would be divided equally upon divorce as long as the marriage lasts at least one year. This recognizes that couples share assets during marriage, and that a lower-earning spouse should not be penalized at divorce.

Benefits for divorced surviving spouses could be higher than under current law.

In addition to allowing divorced women to keep a portion of the Guarantee Account accumulated during marriage, the Guarantee Plus Plan increases widow's benefits to 75% of what the couple was receiving before the worker died, or the average retired worker benefit.

Enhances Benefits for Working Women

The Guarantee Plus Plan enhances benefits for women who take time away from the workforce to raise young children and those whose jobs are not covered under Social Security. These provisions will help improve the economic security of women when they retire or if they become disabled.

More and more, women are participating in the workforce. Yet, many must either reduce their work hours or withdraw completely for several years to care for their children. As a result, women have three times more years with no earnings and even more years of reduced earnings figured into their benefit amounts, which reduces their monthly benefits.

The Guarantee Plus Plan would give a credit equaling 25% of the worker's average wages to a mother (or father) who takes time out of the workforce to care for their children age 6 or younger.

Women with young children are less likely to work full time than other women. Only 65% of women with children under age 6 were working in 2000, compared with 79% with older children. The childcare credit helps insure these women continue to build Social Security benefits while performing this vital role in our society.

The Guarantee Plus Plan increases benefits for persons with pensions from work not covered under Social Security.

Today, many women are dually entitled to benefits. They may receive their own Social Security worker's benefit, and if that is less than 50% of their spouse's benefit, they receive the additional amount as a Social Security spousal benefit. How-

ever, if a spouse receives a pension from work not covered by Social Security, she is affected by the Government Pension Offset (GPO). Under the GPO, her spouse benefit is reduced by $\frac{2}{3}$ of the amount of her pension from non-covered work. Of those affected by the GPO, about three-fourths are women. The Guarantee Plus Plan would reduce the GPO offset to $\frac{1}{3}$ of the pension from non-covered work, and increase the benefits for about half of those currently affected by the GPO.

The Social Security Guarantee Plus Plan

Repealing the Earnings Penalty on Working Seniors

In 2001, over 190,000 beneficiaries ages 62 and older had their benefits completely withheld at least one month because of wages higher than allowed under the earnings penalty. The earnings penalty was abolished for workers who reached the full retirement age (age 65–67, depending on year of birth) effective January 1, 2000.

The Social Security Guarantee Plus Plan helps seniors by repealing the earnings penalty for workers ages 62 through full retirement age.

Under current law, workers age 62 through full retirement age who earn more than \$11,520 in 2003 have their benefit reduced by \$1 for every \$2 of earnings over that amount. The Guarantee Plus Plan gradually phases out the limit by 2009.

Seniors who want to work should be allowed to continue working, even after they begin receiving Social Security benefits. Eliminating the earnings penalty will make it easier for seniors to work and contribute their experience and talent to the economy.

The Social Security Guarantee Plus Plan

Enhancing Income Security for Minority Workers

The Guarantee Plus Plan guarantees full promised current law Social Security benefits, including disability and survivor benefits.

- About 40% of elderly African American and Hispanic beneficiaries rely on Social Security benefits for all of their retirement income.
- African Americans also disproportionately benefit from the disability and survivor's benefits. In 2002, about 13 percent of the population was African American; however, 17 percent of disabled workers receiving benefits were African American.
- In addition, African Americans make up approximately 13 percent of the American population, but about 23 percent of all children receiving Social Security survivor benefits in 2002 were African American.
- The Guarantee Plus Plan guarantees Social Security can continue to provide income security to African American and Hispanic workers and their families without any benefit cuts or tax increases.

In addition, the Guarantee Plus Plan provides all workers the opportunity to accumulate financial assets and build inheritable wealth.

- This is particularly important to African American and Hispanic workers. In 2000, African Americans had a median net worth (excluding home equity) of \$1,166, and Hispanics had \$1,850, compared with \$13,473 for all families.
- The Guarantee Plus Plan creates wealth by letting workers keep 5 percent of the account balance at retirement and using the rest to fund guaranteed current law benefits, regardless of the how the investments performed.
- Workers who die before receiving retirement or disability benefits may leave their account balances to their heirs. This is especially important for minority workers who have less wealth, lower earnings, and shorter life expectancies than other workers. In addition to inheriting the account balance, survivors still receive full benefits promised under current law.
- Minorities would also benefit from enhancements included in the Guarantee Plus plan, such as increased benefits for widows (including disabled widows), divorced women, workers with pensions from work not covered under Social Security, women who take time out of the workforce for childcare, and workers who continue to work after retirement.

The Social Security Guarantee Plus Plan

Promoting Fiscal Responsibility

For the past two-thirds of a century, Social Security has essentially operated on a pay-as-you go basis— payroll taxes coming in go right back out in the form of benefits. That worked fine around the time Social Security began and there were 42

workers supporting every retiree. However, people are living longer, families are having fewer children, and the number of workers supporting every retiree is declining. Soon after baby-boomers start retiring, there will be only 2 workers supporting each retiree. That means there won't be enough payroll taxes coming in to pay full benefits. Like individual families, the great American family needs to start saving for the future.

The Guarantee Plus Plan is fiscally responsible.

The Guarantee Plus Plan temporarily uses general revenues to establish personal accounts and pre-fund benefits. While this investment in Social Security's future requires more funds up-front than current law, it ultimately saves the government money. Over time, it reduces the amount of payroll taxes needed to pay benefits and permanently fixes Social Security's finances.

The Guarantee Plus Plan makes Social Security a budget priority.

Some say we cannot afford to save Social Security because of budget deficits. I say we cannot afford not to, and we must make Social Security a budget priority.

- Just like families who set aside funds or borrow to invest in a new home or start a business, my plan sets aside assets today to ensure a financially sound Social Security in the future.
- If we do not make Social Security a budget priority, those who depend most on Social Security would face a bleak future. Without any changes, benefits would be cut by 26% when the trust funds are exhausted in 2041, increasing to a 32% cut in 2079. Social Security payroll taxes would have to increase 34% in 2041, growing to nearly a 46% increase by 2079 in order to keep paying promised benefits.
- If we do not invest in Social Security's future, we would also miss the chance to provide larger and fairer benefits to women and low-wage workers and give our kids and grandkids the peace of mind that Social Security is there for them.
- By saving assets to pay benefits and enabling workers to build real wealth, the Guarantee Plus Plan ensures Social Security remains as successful as it has been in the past in helping to provide an adequate income for retirees, disabled workers, and survivors without putting an undue burden on our kids and grandkids.

The Social Security Guarantee Plus Plan

Questions and Answers

Fiscal Responsibility

We are now facing budget deficits for several years. Wouldn't this plan require the government to borrow extensively or require steep tax increases?

- Some plans address Social Security's future cash shortfalls by cutting benefits, raising taxes, using general revenues, or a combination of these options. Temporarily using general revenues is preferable to raising payroll taxes or cutting promised benefits. Those who criticize using current Social Security surpluses or general revenues need to explain how they would save Social Security forever without cutting benefits. Giving workers the opportunity to save money through personal accounts that will back up Social Security benefits with real assets is not a "cost," but an investment in a fiscally sound Social Security program.
- Social Security faces significant financial challenges whether or not the rest of the federal budget has surpluses or deficits. Any plan that saves Social Security addresses one of the greatest long-term fiscal challenges the federal government faces.
- General revenues should go towards securing the program by saving today to pay for future benefits and avoid raising taxes on our kids and grandkids.
- The Guarantee Plus Plan would use general revenues only during a transitional period, until the accounts are firmly established. Ultimately, the Guarantee Plus Plan, including contributions to Guarantee Accounts, returns the system and the trust funds to self-sufficiency. By the end of the 75-year estimation period, even if needed funds are borrowed, the plan repays all funds and begins generating excess cash to plump up the government's bottom line.
- Borrowing money to secure Social Security through personal accounts means that for the first time, the government will be using the funds to create a nation of savers rather than paying off the spending bill of the federal government. Also, even if the government had to temporarily borrow the funds to establish personal accounts, the effect on the economy would be neutral. \$1 of government debt would be offset by \$1 of worker savings and assets in the private market.

- Doing nothing potentially commits the government to borrowing \$36 trillion (in 2004 dollars) by 2079 just to maintain current benefits, with debt continuing to grow each year thereafter. Unlike any temporary borrowing for personal accounts, this additional government debt buys no fiscal security for Social Security, does not strengthen the safety net, and does not provide more equitable benefits for women.

Isn't investing under the Guarantee Plus Plan more inefficient than similar investing through the trust funds?

- Not necessarily. The Guarantee Plus plan provides for low administrative costs that are capped at $\frac{1}{4}$ of 1 percent of the account's assets. This ensures that returns on investments are not consumed by high administrative costs.
- Alan Greenspan has said of investment through the trust funds ". . . [I]t would be exceptionally difficult to insulate the government's investment decisions from political pressures. Thus, over time, having the federal government hold significant amounts of private assets would risk sub-optimal performance by our capital markets, diminished economic efficiency, and lower overall standards of living than could be achieved otherwise." (Hearing before the Committee on the Budget, U.S. Senate, January 25, 2001.)
- Government investment denies workers the right to pass an account on to heirs in cases of death before retirement and the opportunity to accumulate additional wealth by keeping a portion of their account upon retirement, all of which the Guarantee Plus Plan provides.

There is no such thing as a free lunch. How can this plan guarantee at least current law benefits, improve benefits for women, restore Social Security's solvency, and increase budget surpluses?

- The Guarantee Plus plan relies on general revenues to pay for the baby boom transition and fund the savings accounts that secure the system. These funds are in high demand to pay for other priorities, such as Medicare, national defense, and education. The Guarantee Plus Plan makes Social Security a priority by putting aside money, without any excuses, like smart families do when they plan for their retirement.
- If we do not start saving now, the alternatives would have devastating consequences for those who depend most upon Social Security for retirement income and upon future workers.
- By starting to save now, we will help ensure Social Security remains as successful as it has been in the past in helping to provide an adequate income for retirees, disabled workers, and survivors without putting an undue burden on our kids and grandkids.

If the investments do not perform as well as expected, will the program still be solvent, or will people face benefit cuts or tax increases?

- Under the Guarantee Plus Plan, the trust funds are never exhausted even if total returns are about one-fifth lower than what is expected.
- Since the Guarantee Accounts would be invested and drawn down over several decades, annual fluctuations will smooth out over time and are expected to provide a sufficient rate of return to ensure solvency for 75 years and beyond.

Since the government would pay current law benefits regardless of the Guarantee Account's performance, wouldn't workers have an incentive to take too much investment risk and leave the government holding the bag?

- No. Investment options under the Guarantee Plus Plan would be required to meet high standards for soundness and would be approved by the Board that administers personal accounts, similar to the savings plan federal workers and Congress enjoy. Workers would have a choice of a 60/40, 65/35 or 70/30 mix of stocks and bonds. The investments would be indexed funds that diversify risk. Therefore, workers could not gamble on individual high-risk stocks at the government's expense. Also, though workers would receive their full Social Security benefit regardless of the Guarantee Account's performance, they would still have to consider how their investment choices would affect the lump sum paid from the account at retirement or the balance that could be passed to heirs in cases of death before retirement.

Nature of the Guarantee Plus Plan

Won't the Guarantee Plus Plan lead to substantial weakening of support for Social Security, since some higher-wage workers would see little dif-

ference between the payment from their Guarantee Accounts and the benefit level to which they are entitled?

- No. The Guarantee Plus Plan will lead to even greater support for Social Security, since workers at all wage levels would be better off than under current law. Workers who collect benefits will receive a lump sum payment that they may use as they wish. Workers who die before collecting benefits will have an account to bequeath to their heirs.
- Higher taxes and lower benefits, the inevitable consequence of delay, would further erode public support for Social Security, not only among wealthier taxpayers, but also lower-income workers who would fare worst if we do not act now to sustain promised benefits. Under that scenario, workers, retirees, or both would be worse off than under current law.

Won't the Guarantee Plus Plan expose retirees to unnecessary risk?

- No. The real risk is doing nothing. By foregoing proposals like the Guarantee Plus Plan, we

Risk driving the system into insolvency

Risk not enhancing benefits for women

Risk not giving low-wage workers bigger savings accounts

Risk not strengthening the social safety net

Risk not providing retirees with lump sum payments to ease retirement needs

- The Guarantee Plus plan shields everyone from individual investment risk by guaranteeing current law benefits regardless of how their investments perform.
- The plan requires workers to invest in broad equity index funds and high-grade corporate bonds. These are not high-risk investments, especially over the long term.
- Maintaining the current financing structure is much riskier, because benefits must be cut or taxes must be raised to keep the system solvent.

Individual Impacts

Can the elderly and poor be taken advantage of under this plan?

- Absolutely not. The refundable credit is given to all workers electing to participate in Guarantee Accounts and must be invested with mutual funds and other financial institutions meeting strict stability and soundness standards. Moreover, Guarantee Accounts must be invested in a diversified mix of equity index funds and high-grade corporate bonds. These safeguards are designed to protect workers who do not have experience with market investments.
- Regardless of the Guarantee Account's investment performance, workers will receive their full promised benefits from Social Security.

Social Security benefits today are tilted toward low-income families. Won't the Guarantee Plus plan just make the rich richer?

- No. The Guarantee Plus Plan ensures full promised benefits using today's formulas, so that it maintains the exact same protections for low-income workers as the current system.
- The Guarantee Plus Plan contributes a larger percentage of wages to the accounts of low-wage workers than to high-wage workers, enabling them to build wealth more quickly. The Guarantee Plus Plan also gives low-income families an opportunity to invest in stocks and bonds, many of which would have no other opportunity. In 2000, only about 9% of families with income in the lowest one-fifth of all households owned stocks and mutual fund shares, compared with 27% of households at all income levels.
- In addition, the Guarantee Plus Plan would help low-income workers, who tend to have shorter life expectancy, to create wealth they could pass along to their children if they die before receiving benefits. This would be in addition to current-law survivor and disability benefits.
- Moreover, maintaining Social Security's current financing structure would require large tax increases or benefit cuts. These tax increases or benefit cuts would hurt low-income families the most. The Guarantee Plus Plan avoids that entirely.

Won't this plan hurt women, minorities, and other low-income workers whose account contributions—and thus balances at retirement—will be lower?

- Absolutely not. The whole point of the Guarantee Plus Plan is that no one is "hurt" compared with current law. The progressive benefit structure remains in-

tact and the plan avoids the benefit cuts or tax increases that would particularly hurt women and low-income workers the most.

- In fact, the Guarantee Plus Plan enhances benefits for divorced and elderly women, who have higher than average poverty rates.
- The Guarantee Plus Plan also contributes a larger percentage of wages to the accounts of low-wage workers than to high-wage workers, enabling them to build wealth more quickly.
- In addition, all workers would be entitled to keep 5% of their account balance at retirement or disability. Therefore, everybody will be better off under the Guarantee Plus Plan and nobody will be worse off.

Since women and minorities are more risk averse, wouldn't they be disadvantaged by lower account balances?

- No. First, low-wage workers will receive contributions that are a larger percentage of their wages than higher-wage workers. Second, all workers would invest their Guarantee Accounts in a prudent mix of equity index funds and high-grade corporate bonds.
- With promised benefits ensured, all individuals, not just the wealthy, can build wealth without worrying about the risks.

Investment Safeguards

What will happen to Social Security if the stock market declines?

- Beneficiaries will not be affected, even if an individual retires during a market downturn, because current promised benefits are paid regardless of individual market returns.
- Depositing and withdrawing contributions over long periods of time (also known as dollar cost averaging) is a proven way of building wealth and minimizing the effect of short-term fluctuations in the private market. Moving toward a system in which some benefits are paid for ahead of time will only improve Social Security's financial outlook.

Wouldn't the large infusion of money into the stock market affect stock prices?

- A General Accounting Office Report states that equity and bond markets should be able to absorb the additional inflow without any significant long-term disruptions of either market. This is because the annual deposits would be only a small fraction of the equity and bond markets as a whole (1% or less).
- Government investment of the same funds, however, would very likely result in negative economic effects according to the Federal Reserve Chairman, Mr. Greenspan.

Efficient Administration to Control Costs

Won't administrative cost hurt low-income workers with small account balances?

- No. Under the Guarantee Plus Plan, administrative costs of the Guarantee Accounts are limited to $\frac{1}{4}$ of 1 percent per year (25 cents of every \$100 invested). Social Security's actuaries say this is "reasonable" given how the accounts are designed.
- Costs are controlled by: (1) utilizing current tax collection and benefit administration systems; (2) keeping investment options and procedures simple and straightforward; and (3) pooling account balances before they are allocated to accounts.

Personal Accounts: Money for families when they need it most

How does the Guarantee Plus plan treat balances remaining in the worker's account at death?

- If the worker dies prior to collecting benefits, the worker's Guarantee Account passes tax-free to the worker's estate. Once the Guarantee Account passes to a worker's heirs, they are free to spend it as they see fit.
- Workers who retire or are disabled receive a lump sum of 5% of the account's balance when benefits start. The remaining balance is used solely to help pay full Social Security benefits, both for the worker and his spouse. Balances in a beneficiary's Guarantee Account after both the beneficiary and spouse die go to the Social Security program, just like "unused" Social Security taxes benefit the program today.

If the government effectively uses most of the account balance to pay benefits, why should a worker care how this money is invested during or after his working years?

- Depending on investment performance, the Guarantee Accounts may result in the worker receiving larger retirement benefits than under current law. Also, the 5% lump sum paid at retirement could be significant. It might pay off a mortgage, buy a new car, or fund health insurance benefits.
- Also, workers who die before receiving benefits will have larger accounts to leave to their heirs if they invest wisely.

Chairman MCCRERY. Thank you, Mr. Shaw. Next, the Ranking Member of the Subcommittee on Trade of the Committee on Ways and Means, a gentleman who has worked long and hard on the issue of retirement security, particularly in the pension area, Mr. Cardin.

STATEMENT OF THE HONORABLE BENJAMIN L. CARDIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. CARDIN. Well, thank you very much, Mr. Chairman. I have a full statement that I will put in the record, and I will just summarize it. Let me just say in response to Mr. Shaw, I also talk to college students. I tell them that Social Security will be there when they retire. I think our goal should be to make sure that Social Security is as strong for our children's and grandchildren's generations as it was for our parents' generation. We shouldn't be weakening it; we should be strengthening Social Security.

Social Security is very important. It represents a core basic retirement amount that is guaranteed for life, inflation proof, and it will be there. It is not enough for a person to live on when they retire, but it is a core amount, approximately one-third of their final income. Forty-eight million Americans depend upon Social Security for retirement, for annuity and death benefits, and for survivor benefits. The current financial circumstances of Social Security are not, as described by the President, in crisis or heading for bankruptcy. I think we do a disservice to the Nation when we use those terms. There are enough funds in Social Security to guarantee benefits for 36 years. We know that. We know that. It is not the same challenge that we have in dealing with the budget deficit. That is in crisis. Or the trade deficit. That is in crisis. Or our savings deficit. That is in crisis. Or financing of health care. These are issues that do demand immediate attention.

I will tell my friend, Mr. Shaw, I am not so sure I want to be there on the take-off, if we are going to have a crash landing on Social Security. That is where I think the President is heading. The reason that we are concerned about the President's proposals for private accounts within Social Security is that they would move the program in the wrong direction. We want to move in the right direction. It is hard to move in the right direction when you hasten insolvency by 11 years by diverting money from the Social Security Trust Fund. We want to work to strengthen Social Security. That is a reasonable request for this Congress, to strengthen Social Security.

I agree with the Chair that it is easier to handle the issue now than it will be 10, 20, or 30 years from now. Yes, we should be talking about ways that we can strengthen Social Security. We should be working, Democrats and Republicans, as Mr. Rangel has pointed out, to deal with proposals that will strengthen Social Security. There have been proposals that have been made by both Democrats and Republicans. I might say one of the first proposals that we should act upon, that Democrats and Republicans have talked about, is tell the trustees to act as fiduciaries and take control of the trust funds. Then you can use with confidence the 36 years that the money will be there, because the trustees will have control over the money, and it won't be used to commingle with our other spending, and make it easier for us to spend it without paying for our current needs today.

That is one proposal that we all should be willing to embrace: allow the Trustees to be fiduciaries. You tell me one fiduciary who wants to invest solely in nonnegotiable government bonds. We should talk about a diversified portfolio for the benefit of the beneficiaries, with the trustees taking control of the funds. There are other proposals out there that are bipartisan. We understand that you need to increase savings in retirement. Former Congressman Portman and I worked with other Members of this Committee to provide more opportunities for people to have greater retirement savings, particularly lower-wage workers. That is where our focus needs to be. Yes, we can work together, Democrats and Republicans, on these proposals that will extend the strength of Social Security.

When you ask us to make Social Security less relevant to future generations than it has been to prior generations, or to this generation, then I must tell you—I can speak for this Member—I do not want to be a part of that. I want to be part of a solution that strengthens Social Security and makes it just as relevant to future generations so that we do have that guaranteed core retirement benefit, so that we do have survivor benefits, and so that we do have benefits for disability.

I am worried that when you head down a path and start to tell Americans, you are on your own, you can provide for your own retirement through private accounts, that we are going to compromise a program that has worked so well for this Nation. With minor adjustments, and by working together, we can make sure that Social Security is there for future generations. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Cardin. Next is a Member of the Subcommittee, and also a Member of the full Committee, Sam Johnson from Texas. Mr. Johnson has a plan that he has introduced. Mr. Johnson, you may proceed.

**STATEMENT OF THE HONORABLE SAM JOHNSON, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate you all for being here to hear the testimony of all of the House Members who want to share our views on the reform of the Social Security system. I think Mr. Shaw is absolutely correct in saying that we have a problem and we can fix it. I can also tell you that we are

ready to fix it, too. My bill is the simplest, least expensive way to strengthen Social Security out there.

Social Security, as you all know, was created in the thirties, and I don't believe the same system can be expected to perform well for those who are working and paying taxes today and who will retire in the 20thirties. You are talking about 100 years since it was created. It is antiquated. We have got to fix it. Young people need to build a nest egg, not build expectations in a program that cannot deliver for them. The only way to fix that system is through personal retirement accounts, not private accounts; personal retirement accounts.

When I am at home in Texas at townhall meetings, I talk with my constituents about the money they pay to Social Security. I ask them, is it your money, or is it the government's money? Nearly every one of them says, it is my money. Well, fellow Committee Members, I know you know that the Supreme Court declared that it is the government's money, and that when 12.4 percent of payroll taxes are taken from each and every paycheck, that money is not set aside in an account for each person; it is the government's money, it is controlled by the government, and they may or may not give it to you.

This has to change. That is why I have introduced H.R. 530, the "Individual Social Security Investment Program Act of 2005," with my colleague, Representative Jeff Flake of Arizona. So, my bill puts Social Security on sound financial footing right around the time the critics of reform are willing to acknowledge that we have a problem. The Social Security actuaries determined our bill permanently fixes the funding problems of the Social Security system at about half the cost of letting the current system roll forward without change. The current system is about \$12 trillion in debt, and, as Mr. Shaw indicated, it is going to cost about \$26 trillion over 75 years to fix it.

In comparison, my bill would cost about \$6 trillion to implement, and ultimately creates a surplus. Aside from being the most affordable way to strengthen Social Security, there are several points I would like to share with you.

First, it is the simplest. The premise is, let's share: half to the government, half to you. Each person keeps half of their 12.4 percent they pay in a payroll tax for a personal retirement account. The government takes the other half to fund existing benefit promises to those over 55, disabled, widows, and orphans. The Johnson-Flake bill will put real money into real accounts to better meet the retirement expectations of all Americans.

Second, what sets this bill apart from others is that it has a fully tradable recognition bond. This bond gives each person the Social Security benefits they have earned so far. The bond is a zero-coupon bond. That means that the interest payments are included in the face amount. These bonds can be held until maturity (the individual's 67th birthday), or they can be traded earlier on public markets. If they trade them early, the proceeds of the sale must be deposited into a personal retirement account. Clearly those who have worked many years under the current system will have a larger recognition bond that will be the biggest part of their retirement benefit. Younger people, who have only worked a few years

in the current system, will have a smaller recognition bond, but they will be able to contribute 6.2 percent of salary for their whole working career. For them, the miracle of compound interest will do the rest. These bonds will help ensure that older Americans will be able to buy an annuity for their retirement income and still have assets to leave to their loved ones. In short, these bonds and accounts are inheritable.

Third, my bill makes sure that people have money for retirement by requiring that every person who opts into personal retirement accounts buys an annuity. This way, we will be sure that every senior retires with income for life. Fourth, the bill has a safety net, known as a minimum benefit guarantee, to protect people who have worked hard but for one reason or another are not able to accumulate enough in an account. In that case, the government will top off their account. Fifth, my bill will continue to grow traditional Social Security benefits and cost-of-living adjustments for retired Americans at the rate of inflation. Again, benefits continue to grow under my bill. This is an important provision because it will bring expectations of Social Security more in line with what can actually be paid.

I find it irresponsible to continue to hold out the promise of benefits that we know we cannot afford. My constituents support me on this point for being direct with them. I look forward to many more hearings in both the Subcommittee and the full Committee to learn how this proposal stacks up against the other plans and against those who claim we do not have a problem until 40 years from now. Mr. Chairman, I ask unanimous consent to place a copy of the actuary's memo on my bill into the record

Chairman MCCREERY. Without objection.

Mr. JOHNSON. Thank you.

[The information follows:]

MEMORANDUM

Date: February 15, 2005

Refer To:

TCA

To: Representative Sam Johnson

From: Stephen C. Goss, Chief Actuary
Alice H. Wade, Deputy Chief Actuary

Subject: Estimated Long-Range OASDI Financial Effects of a Proposal for Individual Social Security Investment—**INFORMATION**

This memorandum presents long-range estimates of the financial effects of the plan you have developed for individual investment accounts that would provide retirement income under the Social Security program. This memorandum includes a description of the plan, reflecting the intent of and specifications for the plan, as provided by Kathleen Black of your staff. While the provisions of the plan described in this memorandum are consistent with the intent of your recently introduced bill *Individual Social Security Investment Program Act of 2005* (H.R. 530), some of the effective dates in the plan description below are based on your earlier bill (H.R. 4895 submitted to the 108th Congress). Some of these effective dates differ by one or 2 years from those now specified in HR 530. In the interest of providing timely analysis, we are providing estimates with these qualifications. The estimates should be regarded as preliminary, but provide a good indication of the nature of the plan and its potential effects. All estimates are based on the intermediate assumptions of the 2004 trustees Report, as well as additional assumptions described below.

The plan would offer to workers under age 55 on January 1, 2005 a combination of recognition bonds based on accrued benefit obligations plus an individual account contribution of 6.2 percent of future taxable earnings redirected from the OASDI payroll tax. For those who do not choose this option, current law benefits will con-

tinue, but will be based on a price indexed benefit formula. Older workers will remain in the current program without change, and future workers will be automatically enrolled in the individual account program. A minimum benefit financed with general revenue would be available to those participating in the individual account program. In addition, disability and young survivor benefits for these participants would continue unchanged. General revenue transfers would be provided as needed to maintain trust fund solvency during the period of transition. Enactment of this plan would eliminate the Social Security long-range actuarial deficit and meet the criteria for sustainable solvency. The program would be expected to remain solvent throughout the 75-year projection period and for the foreseeable future beyond.

Estimates for this proposal reflect the development of several innovations in our methods and substantial work by Chris Chaplain, Jason Schultz, and others from the Office of the Chief Actuary. Further development and refinement of these methods will allow for improvements in the estimates in the future.

1. Description of Proposal

Individual Account (IA) Program— Participation

Beginning January 1, 2005, the proposal specifies that:

- Individuals born in 1949 and earlier (those 55 or older as of January 1, 2005) would stay in the current system and receive full scheduled benefits.
- All individuals eligible for disabled worker and young survivor benefits as of January 1, 2005 would stay in the current system and receive full scheduled benefits.
- Individuals born in years 1950 through 1982, who are not eligible for disabled worker or young survivor benefits as of January 1, 2005, would be offered the following choice:
- Stay with the current OASDI program, subject to a CPI-indexed PIA formula starting with those eligible for benefits in 2012, or
- Participate in the IA program. For these individuals, a recognition bond would be granted for the accrued retired worker benefit obligation earned as of January 1, 2005 and an individual account (IA) would be established, with contributions of 6.2 percent of OASDI taxable earnings starting in 2005.
- All individuals born in 1983 and later (those 21 or younger as of January 1, 2005) would participate in the IA program, with contributions of 6.2 percent of OASDI taxable earnings starting in 2005.

IA Program—Recognition bonds

Recognition bonds will be issued on January 1, 2005, for those individuals born in years 1950 through 1982 who choose to participate in the IA plan. The recognition bond will be a zero-coupon Treasury bond maturing on the date of attaining the normal retirement age (NRA)¹ for the original recipient of the bond. The redemption value of the bond at maturity will be explicitly stated on the bond in dollars. It will be calculated using the present value (discounted at the trust fund yield rate to the redemption date or NRA) of expected retired worker benefit obligations accrued prior to January 1, 2005 *assuming the worker will survive to the NRA and retire at that time*. The accrued benefit obligation would be based on a computation of the Primary Insurance Amount (PIA) that would be payable for entitlement to a disabled-worker benefit as of January 1, 2005, increased by assumed growth in the average wage thereafter up to the redemption date. To reflect the fact that the worker would have only contributed for a portion of the potential full career as of January 1, 2005, the PIA used for computing the recognition bond value would be multiplied by:

$$(\text{Workers age at the beginning of 2005 minus 22}) / 45.$$

The actual redemption value of the recognition bond would be set equal to the expected amount (present value as of NRA) of future retired worker benefits based on this adjusted PIA assuming the worker survives to NRA with certainty, using unisex mortality, wage and CPI increases, and trust-fund yields at the levels projected for the current trustees Report at bond issuance.

Three specifications for the calculation of the recognition bond redemption value described above are particularly notable. First, the recognition bond value will be based on potential retired worker benefits only. Spouse, widow(er) and child benefits

¹The normal retirement age is the age that full benefits are payable. This age is 66 for those born in 1950 to 1954; is 66 and 2 months for those born in 1955; is 66 and 4 months for those born in 1956; is 66 and 6 months for those born in 1957; is 66 and 8 months for those born in 1958; is 66 and 10 months for those born in 1959; and is 67 for those born in 1960 and later.

that may be payable based on the worker's earnings under current law would not be reflected in the recognition bond redemption value. Second, the redemption value of the recognition bonds will be fixed on January 1, 2005 assuming all workers at that time will survive to reach their NRA and receive retirement benefits starting at that time. Some workers who would receive a recognition bond in 2005 will die before attaining their NRA, but the bond will retain its full redemption value in any case. Third, the redemption value will be set in 2005 based on the then current assumptions for future wage growth and future mortality rates after reaching NRA. Actual wage growth (and interest rates) may turn out to be substantially different from what is assumed in 2005, and the lifespan of individuals will vary considerably. Thus, the redemption bond value will only approximate the actual value of specified benefits based on earnings prior to January 1, 2005 and the difference will vary significantly.

Recognition bonds would, upon issuance, be deposited in the worker's individual account. The recognition bond would be marketable in a regulated secondary market; the proceeds of sale of the bond would be required to be retained in the individual account. No payment would be made by the Federal government prior to the redemption date of each bond. The value of redemption bonds in the secondary market would be determined by market forces with a full understanding that precisely the face value of the bond would be paid to the holder upon maturity. The bonds would not be indexed in any way to reflect actual wage growth, CPI changes, or interest rates between issuance and redemption.

IA Program—Financing & IA accounts

The OASDI combined payroll tax rate would remain at 12.4 percent. However, for those who choose to participate in the IA program (and all workers born after 1982), 6.2 percent of OASDI taxable earnings (the employee portion) would be deposited in an IA beginning in 2005. The portion not directed to an IA would be retained for the trust funds to cover recognition bond redemptions and OASDI benefits. Transfers from the General Fund of the Treasury would be provided to reimburse the trust funds for the cost of providing a minimum benefit (described below) starting in 2012. Additional revenue needed for the OASDI Trust Funds in the early decades after implementation would be provided in the form of transfers from the General Fund of the Treasury, on an as needed basis. The amount transferred from the General Fund of the Treasury to the OASDI Trust Funds in any year would be determined as the amount needed to ensure that the combined trust fund assets do not at any time within the year fall below 100 percent of annual OASDI program cost.

Individual account contributions redirected for any year to the IAs of a married couple, both of whom are participating, would be combined, and then divided equally between them for deposit in their separate individual accounts. Allocations during marriage would be unaffected by divorce; divorce would terminate all connection between the future IA contributions of previously married couples.

IA accumulations are assumed to be held in accounts with recordkeeping by a central administrative authority (CAA) that will offer options for investment, maintain individual records, interface with account holders, and combine assets of all accounts for the purpose of making investments with private investment companies (such as Fidelity, Vanguard, etc.). This approach is important for the purpose of keeping the cost of administering the accounts as low as possible.

The default portfolio allocation for accounts would be 60 percent in broad indexed equity funds and 40 percent in corporate bond funds. However, given the uncertainty and volatility of investments in equity and bond markets, we assume that many workers will choose an investment portfolio that is less heavily weighted toward equities (see assumptions below). A variety of index funds would be offered by the CAA with annual options by the account holder to alter the portfolio.

IA Program—IA disbursement & benefit payments

For those participating in the IA program, a minimum monthly annuity/benefit equal to a specified percent of poverty (before any reduction for retirement before normal retirement age, NRA) would apply for all workers becoming eligible for benefits after 2004. The specified percent of poverty would equal 100 percent for workers with 35 years or more of work (quarters of coverage equal to at least 3.5 times the number of elapsed years), decreasing to 0 percent for workers with 10 years of work (quarters of coverage equal to the number of elapsed years). The poverty level is that for aged individuals, increased by the CPI thereafter. The annual poverty level for aged individuals is \$8,825 in 2003. This minimum guarantee, referred to as a minimum PIA, would require purchase of a CPI-indexed life annuity at retirement with all IA assets, including any recognition bond. If an individual's IA assets are

not enough to provide the minimum monthly annuity/benefit, then the difference would be provided by the OASDI Trust Funds. However, the General Fund of the Treasury would reimburse the OASDI Trust Funds for the cost of this payment.

The minimum targeted life annuity is 100 percent of poverty. IA accumulations in excess of what is needed to purchase a life annuity equal to 100 percent of poverty would be available to the retiree for any desired purpose. IA contributions are accumulated tax free. Upon distribution, IA balances, including recognition bond amounts, are exempt from taxation. In addition, if at any age, the CPI-indexed life annuity that could be purchased at age 62 with the *current* assets in an individual's IA account is expected to be greater than 100 percent of poverty (assuming the IA assets were thereafter invested solely in Treasury bonds), then the individual would no longer be required to contribute 6.2 percent of taxable earnings to the IA. At that point the individual would no longer contribute to the OASDI program, but the employer would continue to contribute 6.2 percent of the employee's taxable earnings. Self employed workers would pay one half of the tax rate. Additionally at this point in time, the individual would be required to purchase an annuity equal to 100 percent of poverty or to invest the cost of this level annuity in a fixed-income portfolio of assets, i.e. bonds.

For those in the IA plan, present law scheduled disabled worker benefits would be payable up to NRA, with the minimum PIA applying to those who become eligible for benefits in 2012 and later. Auxiliary benefits to children and spouses with child in care would be paid on the account of a disabled worker. Young survivor benefits (child and spouse with child in care) would also be payable based on present law scheduled benefits, with the minimum PIA applying for those who become eligible for benefits in 2012 and later. However, no spouse or non-disabled child benefits would be payable on the accounts of retired worker beneficiaries or accounts of deceased workers (except for the young survivor benefits mentioned above).

At attainment of NRA, disabled worker beneficiaries would convert to retired worker status. Those participating in the IA plan would then be required to purchase a CPI-indexed life annuity not less than the value of the continuation of the disabled-worker benefit (disability benefit prior to conversion with cost-of-living adjustment). If the individual's IA accumulations, including any recognition bond, are insufficient for the purpose, then the OASDI Trust Funds would provide the difference. The OASDI Trust Funds would be reimbursed from the General Fund of the Treasury for the portion of any individual's benefit attributed to providing the minimum PIA.

IA accumulations including any recognition bonds are transferred to the individual account of the surviving spouse (if any) upon death of a worker. A portion of this transfer will be reserved to pay for any potential young survivor benefits. If there is no surviving spouse, then the IA accumulation, less any reserve for potential child survivor benefits, goes to the worker's estate.

CPI-indexed life annuities purchased with IA accumulations (including recognition bonds) are assumed to be provided through the CAA.

Individuals not in the IA program

All individuals born in 1949 and earlier (those 55 or older as of January 1, 2005), as well as those currently entitled to disabled worker or young survivor benefits on January 1, 2005, would remain in the current OASDI program and receive full scheduled benefits in current law. For those individuals born in 1950 through 1982 who remain in the current OASDI program (do not choose to participate in the IA program), all benefit payments (including disability and young survivors) would be subject to a CPI-indexed PIA formula starting for those eligible for benefits in 2012. The benefit formula would modify the primary insurance amount (PIA) formula factors (90, 32, and 15) starting in 2012, reducing them successively by the measured real wage growth in the second prior year. Modified PIA factors would be applicable for OASDI beneficiaries becoming eligible for benefits in 2012 and later. This provision would result in increasing benefit levels for individuals with equivalent lifetime earnings across generations (relative to the average wage level) at the rate of price growth (increase in the CPI), rather than at the rate of growth in the average wage level as in current law. Calculation of the average indexed monthly earnings (AIME) used in computing the PIA would be unaffected by this provision. In addition, the minimum PIA would not apply to these individuals.

2. Assumptions Used for Financial Estimates

The estimates presented in this memorandum are based on the intermediate assumptions of the 2004 trustees Report plus several additional assumptions relating to specific provisions of this proposal.

Participation in the Individual Account Program

Workers who are at ages 22 through 54 and are not disabled on January 1, 2005 will have the option of choosing to participate in the individual-account/recognition-bond plan. The default option is to remain in the current OASDI program. For the oldest of these workers, most will receive more total benefits from staying in the current system than from switching to the IA plan. This is particularly true for those who are in good health and have potential family Members who may become eligible for an auxiliary benefit based on the workers earnings record. The recognition bond reflects an expected accrued benefit for the worker only after reaching NRA and does not include any amount corresponding to potential auxiliary benefits. Moreover, the recognition bond amount is computed with a factor to diminish the normal PIA computation by approximately 11 percent to recognize a longer potential work history than under the current system. Thus, even workers with no family Members who are relatively healthy (as will be most of this group as the disabled are not included) and relatively old would expect more benefits from the current system for past contributions than from the recognition bonds.

These factors suggest that workers at age 54 on January 1, 2005 will be relatively unlikely to select the IA/recognition-bond option. We assume that 10 percent of those at this age will opt for the IA plan. For younger workers, however, recognition bonds will represent a smaller and smaller portion of their expected future benefit; the CPI-indexed benefit formula will present a smaller and smaller potential benefit from the current system; and potential IA contributions will have longer and longer to accumulate. Thus, we assume that younger workers will be increasingly likely to opt for the IA plan and that 100 percent participation will occur for those under age 41 on January 1, 2005. Participation rates for workers between ages 40 and 54 are assumed to be decline linearly from 100 to 10 percent.

Individual Account Investments

As indicated above, the default portfolio allocation for individual accounts would be 60 percent in broad indexed equity funds and 40 percent in corporate bond funds. However, given the uncertainty and volatility of investments in equity and bond markets, we assume that many workers will choose an investment portfolio that is less heavily weighted toward equities.

This proposal would replace retirement and aged survivor benefits from the current system completely with the IA and recognition bond accumulations. For many workers this account will represent their primary or only potential source of income in retirement. As a result we expect that workers participating in the IA plan will invest somewhat more conservatively on average than indicated in the default portfolio. We assume that the average portfolio will be 50 percent in equity funds, 30 percent in corporate bond funds, and 20 percent in government (Treasury) bonds. Due to the relatively large size of IAs under this proposal and the specification that accounts and annuities will be managed through a central administrative authority, we assume that administrative expenses will be relatively low, ultimately averaging about 0.25 percent of assets per year. The "expected" average annual real yield on IA investments before retirement is assumed to be 4.65 percent ($6.5 \times 0.5 + 3.5 \times 0.3 + 3.0 \times 0.2 - 0.25$).

Note that for estimates reflecting a *low-yield* assumption we assume that all investments will have an average real yield equal to that expected for long-term treasury bonds, or 3 percent in real terms. Therefore, the assumed net real yield after administrative expenses would be 2.75 percent. These estimates provide projections on a "risk-adjusted" basis. Risk-adjusted returns omit any expected return in excess of that for Treasury bonds, because the excess reflects the premium demanded by the market for taking on the increased volatility associated with equities and corporate bonds.

CPI-indexed life annuities purchased from the central administrative authority are assumed to provide an average annual expected real return of 3 percent net of administrative expenses. For the low yield assumption, the net real yield is assumed to be 2.75 percent. For the purpose of illustrations of individual account and annuity assets in this memorandum, we assume that all IA assets will be used to purchase annuities. While the proposal allows for much of the account to be disbursed in other ways for many workers, this variation would not affect the financial estimates presented in this memorandum.

Future returns on IA assets will vary considerably depending both on individual portfolio choices and variation in future returns on specific investments. The average annual real return on long term Treasury bonds is assumed to be 3 percent, consistent with the 2004 Trustees Report. Corporate bonds are assumed to have an average real yield that is about 3.5 percent.

The expected long-term ultimate average annual real yield for equities is assumed to be 6.5 percent. This is somewhat lower than the historical real equity yield over the last several decades. A consensus exists among economists that equity pricing, as indicated by price-to-earnings ratios, may average somewhat higher in the long-term future than in the long-term past. This is consistent with broader access to equity markets and the belief that equities may be viewed as somewhat less "risky" in the future than in the past. Equity pricing will vary in the future as in the past. Price-to-earnings ratios were very high through 1999, and are now lower. The average ultimate real equity yield assumed for estimates in this memorandum is consistent with an average ultimate level of equity pricing somewhat above the average level of the past.

The assumption for an ultimate real equity yield of 7 percent that was used by the Office of the Chief Actuary until 2001 was developed in 1995 with the 1994-6 Advisory Council. At that time, the trustees assumption for the ultimate average real yield on long-term Treasury bonds was 2.3 percent. Real yields on corporate bonds are believed to bear a close relationship to Treasury bond yields of similar duration. The 2004 trustees Report includes the assumption that the ultimate real yield on long-term Treasury bonds will average 3 percent, or 0.7 percentage point higher than assumed in 1995. This increase in the assumed bond yield is consistent with a reduction in the perceived risk associated with equity investments.

It should be noted that the precise effects on the yields of equities and corporate bonds is not clear when implementing a plan that would result in a large demand for these securities. This demand would likely be at least partially offset by reductions in demand for other investment mechanisms. For the purpose of these estimates, it is assumed that there will be no net dynamic feedback effects on the economy or on the financial markets.

3. Benefit Levels under the Proposal

Tables B1 and B2 show projected potential benefits under the proposal for two-earner and one-earner married couples, respectively. While a range of potential benefit levels is shown, actual investment returns and total benefit levels could vary considerably, reaching levels both well above and below the range presented.

Table B1 presents monthly benefit levels for one spouse of a two-earner couple. Table B2, however, presents monthly benefit levels for the total married one-earner couple. Effects for single workers (never married) would be more similar to those of the two-earner couples. Potential benefits include both OASDI benefit payments and potential annuity payments based on IA accumulations (including recognition bond values). For these illustrations, it is assumed that workers will retain their recognition bonds essentially until maturity, although some may be expected to sell the bonds on a secondary market even at a relatively young age and invest the proceeds in some other financial security. For simplicity, recognition bonds are assumed to be available for annuitization at age 65. In fact this would be possible by selling the bonds on the secondary market.

Benefits are illustrated for workers retiring at age 65 with various lifetime earnings patterns. These patterns include average career indexed earnings at about 45 percent of the level of the SSA economy wide average wage for the scaled low earner, 100 percent of this level for the scaled medium earner, 160 percent for the scaled high earner, and earnings steadily at the level of the OASDI taxable maximum for the maximum earner.²

The first three columns provide projected benefits scheduled under current law (column 1), payable under current law (column 2), and scheduled under the proposal for those who do not participate in the IA plan (column 3). In 2045, the CPI-indexed benefit under the proposal for non-IA participants would be close to the level payable under current law for two-earner couples.

The next 5 columns develop the expected total retirement payment under the proposal prior to application of the guaranteed minimum for those in the IA plan. The projected annuity based on the recognition bond would be progressively smaller for subsequent generations who would have had fewer potential work years prior to 2005. Potential IA annuities assuming full annuitization are shown with both an IA accumulation at a low (risk-adjusted) yield and the expected yield for the expected average portfolio. These amounts are summed to show total payments prior to application of the minimum benefit under both investment return assumptions.

The final three columns show the available minimum benefit payment (100 percent of poverty), and the total potential payments under the proposal expressed as

² Actuarial note 2004.3 provides details about the calculation of the scaled earner factors. Actuarial note 2004.3 is located at the following Internet site: <http://www.ssa.gov/OACT/NOTES/ran3/an2004-3.pdf>.

a percentage of the current-law scheduled benefit level. For the scaled low earner, the proposal minimum benefit would be expected to provide an increment for retirees at age 65 through 2035. Proposal expected total benefits for the scaled low two-earner couple would decline from 94 percent of current-law scheduled benefits for those retiring at age 65 in 2015, to 72 percent for those retiring at age 65 in 2055. For the low-earner one-earner couple, proposal expected benefits would decline from 90 to 66 percent of the present-law scheduled level.

Medium and higher two-earner couples with expected IA returns would fall short of the CPI-indexed PIA initially, but would exceed that level starting with those retiring in 2035. Older workers would be expected to strongly consider staying in the current program, consistent with our assumption of low participation by the older eligible workers.

While benefits for a scaled medium earner who experienced the low yields consistent with risk adjusted returns would fare little if any better than the CPI-indexed alternative benefit, the scaled high earner retiring in 2045 and later and experiencing the low yields would beat the CPI-indexed benefit. In addition, by 2055 the maximum earner retiree would even beat the present-law scheduled benefit.

Table B2 shows that benefit levels for the one-earner couple would be considerably lower than those for the two earner couple. Only for the one-earner steady maximum couple retiring at 65 in 2055 would expected returns exceed the present-law scheduled benefit.

4. Financial Effects of the Proposal

Tables 1, 1a, 1b, 1b.c, 1c, and 1d illustrate the expected financial implications of enactment of the proposal under the assumptions described above. These effects are described briefly below. Additional tables 2, 2a, 2b, 2b.c, 2c, and 2d provide similar estimates using the low-yield (risk-adjusted) returns on individual account assets described above.

The proposal would replace OASDI retirement and aged survivor benefits with an individual account that would be financed with one half of the payroll tax rate (6.2 percent). This change would apply to all workers under age 22 on January 1, 2005, and to others under age 55 on that date who choose to accept a recognition bond in place of the benefit obligation based on past contributions. Disability and young survivor benefits would be retained as in current law through the normal retirement age. A minimum benefit (PIA) guarantee equal to a specified percent of the poverty level (100 percent for those with at least 35 years of work) would be financed through reimbursements from the General Fund of the Treasury. Those, who do not choose to participate in the IA program, would remain in the current program and be subject to a CPI-indexed PIA formula that provides slower growth in benefits across generations than does the current wage-indexed benefit formula.

Cash Flow and Solvency

In part because the recognition bonds for voluntary participants would mature on the date each worker would attain their normal retirement age, substantial general revenue transfers would be needed to maintain solvency of the OASDI Trust Fund. Table 1 indicates that transfers are expected to be needed from 2013 through 2045, peaking at 9.7 percent of payroll in 2028, and totaling \$6.8 trillion in present value (see table 1a.)

After 2045, the OASDI program would be expected to operate with substantial annual positive cash flow (see annual balance on table 1 and the first four columns of table 1c). Table 1 shows that the OASDI Trust Fund would grow at an increasing rate as a percentage of annual program cost after 2045. The large and rising trust fund ratios³ reflect both the small residual amount of payments made from the OASDI program, and the increasing size of trust fund assets. The OASDI program would clearly satisfy the criteria for sustainable solvency under the proposal.

Relative to current law, net cash flow from the OASDI Trust Fund to the General Fund of the Treasury would be substantially diminished through 2038. After 2038, however, cash flow from the trust funds to the Treasury would be increased over the current program modified to permit borrowing.⁴ The proposal is expected to produce positive cash flow from the trust funds beginning 2046.

³The trust fund ratio for a year is calculated as (1) the level of assets at the beginning of the year divided by (2) program cost during the year, excluding recognition bonds.

⁴Without this modification to permit borrowing, the current program would presumably operate with reduced benefits based on available tax revenue after the OASDI Trust Funds exhaust in 2042.

Total System Assets

Table 1a provides estimates of expected OASDI Trust Fund assets under the proposal in column 5, and estimated individual account (and annuity) assets in column 6. All IA assets are assumed to be fully annuitized in a CPI-indexed life annuity for the purpose of these illustrations. For the purpose of these illustrations, married individuals are assumed to choose a joint & $\frac{2}{3}$ survivor annuity.⁵ The sum of these amounts may be referred to as total system assets under this proposal. By 2078, expected total system assets are expected to reach over \$70 trillion in constant 2004 dollars, or more than double the size of the OASDI Trust Fund (\$27 trillion), if all transfers expected under the proposal were provided to current OASDI program (see column 9).

Table 2a, with low-yield assumptions (risk-adjusted) shows that total system assets under the proposal would be over \$50 trillion. This amount is still higher than the assets under the current OASDI program with the same general revenue transfers as under the proposal (\$28 trillion). This is because of the gradual reduction and eventual elimination under the proposal of retirement benefits other than the individual account annuities.

Recognition Bonds and Effects on the Unified Budget

Tables 1b, 1b.c, 2b, and 2b.c show expected effects on the unified budget of the Federal government from enactment of this proposal. It should be noted that these effects are not comparable to the effects that would be estimated by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO), at least in part because the trustees assumptions used for estimates presented here differ from those of OMB and CBO.

Column 1 shows the projected IA contributions redirected from the trust funds starting in 2005. These contributions, along with distributions upon maturity of recognition bonds starting in 2016 (column 2) represent increased expenditures from the unified budget. Generally lower benefit payments from the OASDI program are reflected in column 3 and would be reductions in expenditures. These changes are combined to produce the net change in unified budget annual cash flow in column 4.

The implications for the size of the Federal debt held by the public are shown in column 5. Debt would be increased substantially through the 75-year period, but the increment would be decreasing toward the end of the period.

The net effect on annual unified budget balances, including the debt service from prior year effects on cash flow, is shown in column 6. Negative effects on unified budget balances would gradually decline and reverse to positive changes starting in 2070 under the expected yield scenario and starting in 2072 under the low yield scenario.

Change in Long-Range Trust Fund Assets/Unfunded Obligation

Tables 1d and 2d provide estimates of the amount of assets in the combined OASI and DI Trust Funds at the end of each year, in present discounted value. Negative values do not indicate levels of trust fund assets as the program does not have borrowing authority. Instead, negative values reflect the magnitude of the unfunded obligation of the program through the end of the year. The first column presents these estimates under present law, where the unfunded obligation is \$3.7 trillion through 2078, the end of the 75-year long-range period.

Columns 2 through 5 show the annual effects of the components of the proposal that move the OASDI program to elimination of the unfunded obligation. These include:

- The change in the OASDI basic benefits,
- IA contributions redirected from the trust funds to the individual accounts,
- Recognition bond payments from the trust funds to the individual accounts, and
- General Fund transfers needed to reimburse the trust funds for providing the minimum benefit level and to maintain solvency in 2013 through 2045.

The combination of the annual effects in columns 2 through 5 is accumulated in column 6, showing effect on projected trust fund assets, or on the unfunded obligation, through the end of each year. Column 7 shows the resulting trust fund asset levels projected under the proposal. The overall effect of the proposal is to transform the projected \$3.7 trillion long-range unfunded obligation for the program under current law into an expected positive trust fund balance of \$1.8 trillion at the end of the period.

⁵ Two-thirds of the benefit level continues to the survivor.

[The prepared statement of Mr. Johnson follows:]

**Statement of The Honorable Sam Johnson, a Representative in Congress
from the State of Texas**

Chairman McCrery, Ranking Member Levin and fellow Subcommittee members, I want to thank you for being here today to hear the testimony of all House Members who want to share our views on reform of the Social Security system.

I have introduced the simplest, least expensive bill to strengthen the Social Security system. Social Security was created in the 1930s and I don't believe the system can be expected to perform well for those who are working and paying taxes today and will retire in the 2030s. Young people need to build a nest egg, not build expectations in a program that cannot deliver for them. And the only way to fix the system is through personal retirement accounts,

When I am home in Texas at town hall meetings, I talk with my constituents about the money they pay to Social Security and ask, "Is it your money? Or is it the government's money?" Nearly everyone says "It's my money."

Well, fellow Committee members, we know that the Supreme Court has declared that this is the government's money and that when the 12.4 percent of payroll is taken from each and every paycheck, that money is not set aside in an account for each person. It is the government's money and it is controlled by the government.

This has to change!

That is why I have introduced H.R.530, with my colleague Jeff Flake of Arizona. So you know, my bill puts Social Security on sound financial footing right around the time critics are willing to acknowledge we have a problem. The Social Security Actuary determined that our bill permanently fixes the funding problems of the Social Security system at about *half* the cost of letting the current system roll forward without change. The current system is about \$12 Trillion in debt. In comparison, my bill would cost about \$6 Trillion to implement....and ultimately creates a surplus!

Aside from being the most affordable way to strengthen Social Security, there are several points I'd like to share with you.

First, my bill is the simplest. The premise is "let's share"—"half to the government, half to you."

Each person keeps half of their 12.4% they pay in payroll tax for a personal retirement account. The government takes the other half to fund existing benefit promises to those over 55 and to the disabled, widows and orphans. The Johnson/Flake bill will put *real* money into *real* accounts to better meet the retirement expectations of all Americans.

Second, what sets my bill apart from others is that it has a fully tradable recognition bond. This bond gives each person the Social Security benefits they've earned so far. The bond is a zero coupon bond which means that the amount printed on the face of the bond is what it is redeemed for on its maturity date and that the interest payments are included in the face amount. Each person who opts into personal accounts would get a bond that matures on that person's 67th birthday. These bonds can be held until that date or can be traded earlier on public markets but the proceeds of the sale must be deposited into personal retirement accounts.

Clearly someone who has worked and paid Social Security for 30 years will have a large recognition bond that will be able to grow for the last ten years of their working career. Younger people who have only a few years in the workforce will have a smaller recognition bond. But, they will be able to contribute 6.2 percent of salary for their whole working careers and, for them the miracle of compound interest will do wonders.

These bonds will help to ensure that older Americans will be able to buy an annuity for their retirement income and still have assets left to leave to loved ones.

In short, these bonds and accounts are inheritable.

Third, my bill makes sure people have money for retirement by requiring that every person who opts into personal retirement accounts buys an annuity. This way we will be sure that every senior retires with income for life.

Fourth, my bill has a safety net. Known as a minimum benefit guarantee, it protects people who have worked hard but for one reason or another are not able to accumulate enough in an account. In that case, the government will top off their account.

Fifth, my bill will continue to grow traditional Social Security benefits, and COLAs for retired Americans, at the rate of inflation. Again, there is nothing I, or anyone else, has proposed that would change how COLAs are calculated for those already receiving Social Security benefits.

This is an important provision of my legislation because it will bring the expectations of Social Security more in line with what can actually be paid by the system. *I find it irresponsible to continue to hold out the promise of benefits that we know we cannot afford.* My constituents support me on this point for being direct with them.

I look forward to many more hearings in both the Subcommittee and the Full Committee to learn how my proposal stacks up against other plans and against those who claim we don't have a problem until 40 years from now.

Chairman MCCRERY. Thank you, Mr. Johnson. Next, another Member of the Subcommittee, Mr. Lewis from Kentucky.

STATEMENT OF THE HONORABLE RON LEWIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. LEWIS. Thank you, Mr. Chairman. I appreciate the opportunity to testify today. Mr. Chairman, I certainly appreciate the leadership this Committee has taken in addressing the looming budget shortfalls facing the Social Security program. Social Security is of vital importance to so many Americans who depend upon these benefits during their retirement years. As David Walker, the U.S. Comptroller General, mentioned before our Committee on March 9th of this year, there is an overall fiscal crisis facing our Nation.

Entitlement spending has swollen to the point that in 2015, only 10 years from now, our entire Federal budget will be consumed by mandatory spending and interest on the debt. Current projections estimate a \$43 trillion unfunded mandate for entitlement programs. This course is unwise and unsustainable. Many of our colleagues have mentioned during the past few weeks of debate that Social Security may be the least challenging of the entitlement problems to fix. Both Medicare and Medicaid are already running shortfalls and will face an even more severe dilemma with the aging of the Baby Boomer generation.

We must put partisan politics aside and work toward long-term solvency of the Social Security program, and to ensure a more secure retirement future for all Americans. I am hopeful that our work on a reform package will allow us to address some other important related issues. One provision that is particularly important to constituents in my district is updating the optional method for reporting Social Security. I have introduced legislation, H.R. 1929, that would allow farmers and ranchers to fully access benefits provided by Social Security. For farmers and ranchers who do not have a steady stream of income and occasionally suffer net losses, qualifying for Social Security benefits can be difficult. Without enough earnings, farmers are not eligible to participate in the system. The optional method, which is supported by the administration, provides farmers the opportunity to maintain their benefits by voluntarily paying into the system. The current law includes outdated maximum thresholds limiting the amount farmers can contribute and no longer allows farmers to maintain benefits for themselves and their families. My bill would update these thresholds so that farmers taking advantage of the optional method will be able to fully opt into Social Security. Updating the optional method is an important provision to my constituents and is something that

I urge this Committee to consider. As we continue to explore options to reform Social Security and the overall retirement situation in America, we must allow those with low wages or net losses to fully opt into the program.

In closing, I want to again thank Chairman Thomas and Chairman McCreery for their willingness to put politics aside, roll up their sleeves, and start addressing these pressing issues. Social Security is entirely too important of an issue to demagogue or to be used as a political football. We must act now to ensure that the promise of Social Security will be there for future generations.

[The prepared statement of Mr. Lewis follows:]

Statement of The Honorable Ron Lewis, a Representative in Congress from the State of Kentucky

Mr. Chairman, I appreciate the leadership that this committee has taken in addressing the looming budget shortfalls facing the Social Security program. Social Security is of vital importance to so many Americans who depend upon these benefits during their retirement years.

As David Walker, the United States Comptroller General, mentioned before our Committee on March 9, 2005, there is an overall fiscal crisis facing our nation. Entitlement spending has swollen to the point that in 2015—only 10 years from now—the entire federal budget will be consumed by mandatory spending and interest on the debt. Current projections estimate a \$43 Trillion unfunded mandate for entitlement programs. This course is unwise and unsustainable.

Many of our colleagues have mentioned during the past few weeks of debate that Social Security may be the least challenging of the entitlement problems to fix. Both Medicare and Medicaid are already running shortfalls and will face an even more severe dilemma with the aging of the Baby Boomer generation. We must put partisan politics aside and work toward long-term solvency of the Social Security program and to ensure a more secure retirement future for all Americans.

I am hopeful that our work on a reform package will allow us to address some other important related issues. One provision that is particularly important to constituents in my district is updating the Optional Method for reporting Social Security. I have introduced legislation, H.R. 1929, that would allow farmers and ranchers to fully access benefits provided by Social Security.

For farmers and ranchers, who do not have a steady stream of income and occasionally suffer net losses, qualifying for Social Security benefits can be difficult. Without enough earnings, farmers are not eligible to participate in the system.

The Optional Method, which is supported by the Administration, provides farmers the opportunity to maintain their benefits by voluntarily paying into the system. The current law includes outdated maximum thresholds limiting the amount farmers can contribute and no longer allows farmers to maintain benefits for themselves and their families. My bill, H.R. 1929, would update these thresholds so that farmers taking advantage of the Optional Method will be able to fully opt in to Social Security.

Updating the Optional Method is an important provision to my constituents and is something that I urge this Committee to consider. As we continue to explore options to reform Social Security and the overall retirement situation in America, we must allow those with low wages or net losses to fully opt in to the program.

In closing, I want to again thank Chairman Thomas and Chairman McCreery for their willingness to put politics aside, roll up their sleeves, and start addressing these pressing issues. Social Security is entirely too important of an issue to demagogue or be used as a political football. We must act now to ensure that the promise of Social Security will be there for future generations.

Chairman MCCREERY. Thank you, Mr. Lewis. Next, another Member of the full Committee on Ways and Means, Mr. Weller from Illinois. Mr. Weller, you may proceed.

STATEMENT OF THE HONORABLE JERRY WELLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. WELLER. Well, thank you, Mr. Chairman. I want to thank you and Mr. Levin for today's hearing. I also want to thank all of the Members who are present for what I consider to be a great opportunity, that is, for Members to share their ideas and their solutions. I was always taught, if you are not part of the solution, you are part of the problem. I believe we each have an obligation to offer our solutions for the challenges facing Social Security.

Recently, I had a series of meetings and functions to discuss the challenges facing Social Security. I was joined by my colleague, Clay Shaw, former Chairman of the Subcommittee, and we happened to be at a community college. We asked the students at the community college, how many of you are age 21 or younger? About 90 percent of the students there raised their hands, including Ms. Jones. When I asked them to keep their hands up, I said, how many of you believe when it is your turn to be eligible for Social Security that it will be there when it is your turn? Keep your hands up. Every one of those students lowered their hands.

My good friend from Maryland mentioned 36 years, they all come into the system after 36 years. That is really what this debate is about, the young people. Of course, the challenge is what are the solutions that we have to offer. There has been discussion of taking a look at this challenge from a broad perspective of what can we do to look at the whole of retirement security, Social Security being one component. What are the other ideas we should consider?

I want to offer one of those options today in what is known as KidSave, which I think is an innovative idea that helps for retirement security. Studies of retirement savings plans show the most important step toward retirement security is the decision to save. This simple decision is even more important to an individual's retirement income than how the money is invested. In the year 2000, there was a bipartisan proposal sponsored by former Senators Bob Kerry, John Breau, Daniel Patrick Moynihan, as well as current Senators Rick Santorum (R-PA) and Charles E. Grassley (R-IA). They would have made that decision much easier by creating KidSave accounts as a first step for providing retirement security for future generations.

I felt it was important to revive this idea. My friend and colleague from Ohio, Mr. Brown, joined me in a bipartisan effort to reintroduce KidSave into the House as H.R. 1041, the "Social Security KidSave Accounts Act." Under this proposal, at birth, every American child would receive a loan of \$2,000 from Social Security to open a KidSave account. After 2006, the amount would be indexed annually for inflation. The funds could only be withdrawn at retirement or after the account owner's death. Even if no other money is ever added to the account, it is projected that the \$2,000 initial loan can grow to more than \$50,000 by the time the child reaches retirement age.

The nest egg could then be used for such things as increasing retirement income, sending a grandchild to college, starting a small business, making a donation to their own church or community charity. Money would be invested through the Thrift Savings Plan, something that the vast majority of Members of Congress have cho-

sen to do, as have Federal employees. The money would be invested in three safe and low-cost investment options: a government bond fund, a corporate bond fund, or a stock index fund. I would note that each of those over the last 20 years have enjoyed an average rate of growth of between 7 to 12 percent, with very modest overhead cost.

Under the proposal, the parents or legal guardians of under-aged citizens would choose one of those investment options. In addition to the base loan of \$2,000, parents would be allowed to deposit up to \$500 annually in each child's account tax free, until that child is 19. This money could come from the parents' or grandparents' 401(k) or Individual Retirement Account (IRA) as well as other accounts to help their child save for their retirement. When the account holder reaches the age of 30, the initial loan would be repaid, without interest, in five equal annual installments. However, the account owner would repay an inflation-adjusted amount. In other words, if the \$2,000 initial loan had increased to \$3,500 in inflation-adjusted dollars over the 30 years, the owner would repay \$3,500 in five equal annual installments.

In addition to enabling all individuals, every American, to build a retirement nest egg, the KidSave plan would have other benefits. I would note this is universal. KidSave would be available for everyone. Every child, regardless of family income level, would receive a KidSave account. Instead of attempting to redistribute income or targeting only a few specific groups, the program would help all Americans save for retirement. Lower-income workers would have the same opportunity to build assets as those in higher-income brackets. KidSave, as I noted earlier, would be a loan, not a gift. KidSave would teach children that while people may be willing to assist them, loans must be repaid. Unlike proposals to seed retirement accounts with government matching grants, KidSave would not divert other people's tax dollars into the accounts.

After 30 years, KidSave would become a self-sustaining program with loan repayments providing necessary funds to establish accounts for future beneficiaries. KidSave would help to reduce the gap between rich and poor. Many lower-income individuals find it impossible to save because Social Security and other taxes leave them with nothing after their rent, food, and other expenses. KidSave would enable low-income families to accumulate a nest egg for their family's future without cutting into their paychecks. Furthermore, since the KidSave account would be owned by the individual and would become part of his or her estate, it would help the family, even if the worker died before retirement. KidSave money would stay in the community, since every KidSave account would be owned by the individual worker, become part of the worker's estate after death. KidSave accounts from lower-income workers would tend to remain in their communities, giving their communities a greater opportunity to build wealth.

Mr. Chairman, I would like to submit my entire statement for the record, but I do believe as we look at the various options for the KidSave proposal—which is a bipartisan proposal, it has been around for a while, kicked around, and of course, I believe it has been fine-tuned—but as we look at our options for a broad retire-

ment security package, I believe KidSave offers a way to provide a universal solution for every American child. Thank you.

[The prepared statement of Mr. Weller follows:]

**Statement of The Honorable Jerry Weller, a Representative in Congress
from the State of Illinois**

While it is critical that we address the challenges Social Security faces, I believe that we can and should expand the options available to America's hard working men and women to provide a sound retirement. One such option is KidSave, an innovative step towards better retirement security.

Studies of retirement savings plans show that the most important step toward retirement security is the decision to save. This simple decision is even more important to an individual's retirement income than how the money is invested.

In 2000, a bipartisan proposal sponsored by former Senator's Robert Kerrey and cosponsored by Senators Rick Santorum, Charles Grassley, and John Breaux and former Senator Daniel Patrick Moynihan—would have made that decision much easier by creating "KidSave" accounts as a first step toward providing retirement security for future generations.

More recently, on March 2, 2005, I, along with Mr. Brown of Ohio reintroduced KidSave into the House of Representatives as HR 1041.

Under the proposal, at birth, every American child would receive a loan of \$2,000 from Social Security to open a KidSave account. After 2006, the amount would be indexed annually for inflation. The funds could be withdrawn only at retirement or after the account owner's death. Even if no other money is ever added to the account, the \$2,000 initial loan could grow to more than \$50,000 by the time the child retired.

The nest egg could then be used for such things as increasing retirement income, sending a grandchild to college, starting a small business, or making a donation to a church or community organization. This money would be invested through the Thrift Savings Plan (TSP), which helps federal employees invest for retirement. The money would be invested in the three safe and low-cost investment options: a government bond fund, a corporate bond fund and a stock index fund.

Under the proposal, the parents or legal guardians of under-age citizens would choose one of the investment options. In addition to the base loan of \$2,000, parents would be allowed to deposit up to \$500 annually in each child's account, tax free, until the child is 19. Additionally, income tax overpayments up to the amount of \$500 may be directly deposited from a parent or grandparent into the child's account. Part of the \$500 could also come from grandparents, who would be allowed to roll over money, tax-free, from 401(k) or similar retirement plans.

When the account owner reached the age of 30, the initial loan would be repaid without interest in five equal annual installments. However, the account owner would repay an inflation-adjusted amount. In other words, if the \$2,000 initial loan had increased to \$3,500 in inflation-adjusted dollars over the 30 years, the owner would repay \$3,500 in five equal annual installments.

In addition to enabling all individuals to build a retirement nest egg, the KidSave plan would have other benefits. Specifically:

KidSave would be available for everyone. Every child, regardless of family income level, would receive a KidSave account. Instead of attempting to redistribute income or targeting only a few specific groups, the program would help all Americans save for retirement. Lower-income workers would have the same opportunity to build assets as those in higher income brackets.

KidSave would be a loan, not a gift. KidSave would teach children that while people may be willing to assist them, loans must be repaid. Unlike proposals to "seed" retirement accounts with government matching grants, KidSave would not divert other people's tax dollars into the accounts. After 30 years, KidSave would become a self-sustaining program, with the loan repayments providing the necessary funds to establish accounts for future beneficiaries.

KidSave would help to reduce the gap between rich and poor. Many lower-income individuals find it impossible to save because Social Security and other taxes leave them with nothing after rent, food, and other expenses. KidSave would enable low-income families to accumulate a nest egg for the family's future without cutting into their paychecks.

Furthermore, since a KidSave account would be owned by the individual and would become part of his or her estate, it would help the family even if the worker died before retirement.

KidSave money would stay in the community. Since every KidSave account would be owned by the individual worker and become part of the worker's estate after death, the KidSave accounts of lower-income workers would tend to remain in their communities, giving these communities a greater opportunity to build wealth.

We should revive the KidSave plan. Such a move would be an innovative step toward enabling every American to build a retirement nest egg, permitting all income groups to build assets. This would be especially important in lower-income communities, where today workers often retire with only Social Security for income. KidSave would allow all young Americans to look forward to a retirement that did not depend entirely on traditional Social Security benefits.

Regardless of what is done to resolve America's problems with entitlement programs, modest programs such as KidSave, can make the American Dream accessible to millions who are currently excluded because they lack the means to save.

Chairman MCCRERY. Thank you, Mr. Weller. Next, another Member of the Subcommittee, Kevin Brady from Texas. Mr. Brady.

**STATEMENT OF THE HONORABLE KEVIN BRADY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. BRADY. Thank you, Mr. Chairman. Part of this reform of Social Security is not simply to sustain the solvency of it and look for long-term solutions, but also to make the system we have more fair. We know that about 4 percent of the workers in America do not pay into Social Security, but pay into a substitute for Social Security. Many of these are teachers, or firefighters or police officers, to name a few. About half of those in a substitute have earned a second pension in Social Security. A teacher who has a summer job, a firefighter who has a second job to make ends meet. When they retire, the Windfall Elimination Provision (WEP) kicks in and penalizes them up to \$300-and-some a month for having earned those two pensions. Now, I think that is wrong. If you have earned two pensions, you ought to receive two pensions. We have introduced legislation, H.R. 1714, the "Public Servant Retirement Protection Act," bipartisan legislation, which repeals the WEP.

What it does, basically, is treat all of the people in substitute systems just as everyone else in Social Security. So, it tailors it to each worker, rather than a one-size-fits-all formula. It recreates the wages for those workers, and they are treated exactly the same, with the exact same formula as everyone else in Social Security. So, if they have worked 10 years in Social Security, they get 10 years of full benefits. If they have worked 15 years, 15 years of full benefits. Equal treatment for all workers within that system. This bill has the support of many of the teacher and firefighters and police groups, because again, nothing is fairer than equal treatment. I will tell you the reason we chose this is that the WEP pretends that everyone that earns two pensions is wealthy; hence the name, "windfall." That is certainly not the case. Repealing this pretends everyone is poor. Well, with \$200,000 school superintendents, and \$100,000 high school coaches, that is not the case either. This equal treatment treats each worker based on, and is tailored to their work history and their situation. I think it is an improvement that I would encourage our Committee to look at as we look at Social Security reform.

There has been an effort, and a growing effort to force mandatory coverage for State and local employees who are in these sub-

stitutes. I think that is a mistake. I would urge this Committee to reject the idea of mandatory coverage. In fact, the teacher systems, like in Texas, the substitute systems like in Galveston, the substitute systems for some of our firefighters; the fact of the matter is, they should not look more like Social Security, we should make them look more like their system: real pensions, backed by real assets, to create larger retirement checks that is there and ready for them when they retire. With that, Mr. Chairman, I will conclude my testimony 3 minutes early.

[The prepared statement of Mr. Brady follows:]

**Statement of The Honorable Kevin Brady, a Representative in Congress
from the State of Texas**

My initial interest in Social Security developed when hundreds of teachers in my district started letter and phone call campaigns and began researching the GPO and the WEP—the Government Pension Offset and the Windfall Elimination Provision. I have boxes of correspondence from teachers and other public employees throughout Texas chronicling their work histories and concerned about their retirement and spousal benefits. The GPO and WEP are complicated formulas that most retirees learn about just before retirement.

I would like to focus the scope of my testimony on the frustrations that many public servants, teachers, firefighters, police officers, and others face with regard to their own benefits within Social Security.

There is a great deal of anger and confusion about the GPO and the WEP.

The Windfall Elimination Provision

The following is one of hundreds of examples that the folks back home have shared with me of how the WEP adversely affects tens of thousands of public employees nationwide:

“As a school district employee married to a retired Houston Police officer, no one could be more interested in what is fair as far as Social Security benefits. My husband now draws only 40% of what he should be drawing, after working in the private sector until he was in his early thirties. Then as an underpaid police officer, he worked many, many extra jobs that he paid into Social Security. When he became of age and went to the Social Security office, he was informed of his dilemma because of his employment with a government agency. I too worked in the private sector for years before joining my school district. No one informed me of this penalty until recent years. We only want what is our due—what we worked so hard for.”

—from Carolyn Keefe at CyFair ISD.

I strongly agree with Texas teachers and many other public servants that their own Social Security benefits should not be docked because they have earned both Social Security and teacher’s pensions. I am again introducing The Public Servant Retirement Protection Act—H.R. 1714. to repeal the WEP and make it more fair.

The Public Servant Retirement Protection Act repeals the WEP. It eliminates the arbitrary formula and treats public servants just like the rest of the American workforce who contributed only to Social Security.

Today, about 758,000 firefighters, police officers, teachers and other public servants earn both a Social Security benefit and a Social Security substitute—such as a state public pension—where workers did not contribute to Social Security. When they retire, their Social Security worker benefit is determined using an arbitrary formula called the Windfall Elimination Provision (WEP), which may reduce their Social Security checks by up to \$306 a month. WEP’s one-size-fits all approach does not adjust benefits fairly for all workers.

This bill guarantees public servants keep the Social Security they earned while they paid into the federal program. Their Social Security amount will no longer be figured by an arbitrary WEP formula, but will be based on each worker’s real-life Social Security contributions and work history—just like everyone else. For example, a worker who contributes to Social Security for 10 years would receive all of their Social Security due them based on the earnings and contributions made in that 10 years. The same for 15 years, 20 . . . or more.

Equal treatment.

This bill will return billions of dollars of additional Social Security back to public servants that don't receive today because of the WEP. And, because it applies the same Social Security formula equally for the same wage-years it is fair to both government and private-sector workers. Public employees will get back what they deserve based on their contributions—no more, no less.

Fair treatment.

Current law WEP pretends that public employees are high income and cuts their benefits. Full repeal of the WEP would give an unfairly higher benefit to some by pretending they are low income workers. Lets quit pretending and grade teachers on their own work record; base the formula on facts, not fiction and pay these people what they worked so hard to earn while contributing to the system.

There is nothing more fair than equal treatment under the law.

On a related note, I urge the committee to throw out the idea of mandatory coverage for state and local employees in Social Security Substitute "government pension" systems and to begin to look at these systems as models for our own reform process.

Forcing the 4% of American workers who created a better retirement deal for themselves into Social Security would not only be hypocritical but would jeopardize many of these public pension systems. It would barely even make a minor dent in the solvency of the system, not really even enough to measure.

The folks in Galveston Texas, Texas teachers, fire fighters and policemen, just to name a few—they have the right idea—invest our money smarter—protecting it for our futures while growing it at a higher rate of return. We could all learn something from the investment choices 30% of state and local governments made 30 years ago when they chose to create retirement investment options for their employees—investments that have yielded much higher returns than Social Security's paltry 2% returns.

I look forward to working throughout the coming months with my colleagues to create a brighter future for the Mrs. Keefes of the world as well as my boys, Will and Sean. I also know that while doing so, we can find the right balance continue to take care of my Mother and provide me and my wife with benefits in the meantime if we need it. I thank the Chairman and the Ways and Means and Social Security Subcommittee for having the courage to take on such an emotional and complicated issue.

Mr. SHAW [presiding]. Mr. Ryan, you are next.

STATEMENT OF THE HONORABLE PAUL RYAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. RYAN, Mr. Chairman, Mr. Levin, thanks for this opportunity. I want to go through my quick PowerPoint, but I wrote this bill with John Sununu about a year and a half ago. It was introduced in the last Congress, introduced in this Congress. It has been scored by the chief actuary of Social Security three times now as achieving full and permanent solvency. A couple of principles I wanted to uphold while writing this plan are as follows: The plan must protect benefits for seniors and near retirees. It should not raise taxes or expose people to unnecessary risk. It should maintain a strong safety net for all workers. It should also stop the government from raiding the Social Security Trust Fund to pay for unrelated programs. This is an issue I have felt strongly about since I came to Congress. Last, it ought to make Social Security fair for future generations. This is an issue that is just not really talked about that often.

Now, let me just go through the quick PowerPoint to show you how the plan is designed, then we will go vote, I guess. Number one. You can see from here, no change in benefits would occur to those over the age of 55 and no change in survivor or disability

benefits occur in this plan. Accounts are purely voluntary for those under the age of 55. From 2006 to 2015—I will explain why I do it this way—5 percent of the first \$10,000 of a worker's wages coming from their existing payroll taxes go over to their account, and 2.5 percent of their wages above that from their existing payroll taxes go to their account.

In 2016, the accounts double. It becomes 10 percent of the first \$10,000 and 5 percent of the wages above that. The reason I designed it that way was to make the benefit structure and the account structure progressive. So, lower-income workers can put more of their payroll taxes in their accounts than could a higher-income worker. A \$20,000-a-year earner, when this is fully phased in, will have about a 7.5 percent account; the \$90,000 earner will have about a 5 percent account. The average account size is about 6.4 percent. Workers would keep the Social Security benefits that they are due based on the payroll taxes that they have already paid. Personal accounts will work just like the Federal Thrift Savings Plan, with an automatic option called a life cycle fund where your account adjusts as your age changes, so you are heavy on indexed stock funds when you are young; then, by the time you are near retirement age, you are out of the stock market and in government-backed bonds. The accounts are backed up with a safety net or benefit guarantee equal to promised benefits. So, there is no benefit formula change, no change whatsoever.

Now, where the rubber hits the road on this and any other plan is the transition financing. How do you get from here to there? I want to mention the transition financing is just another way of saying refinancing the debt that is out there, that is already outstanding for Social Security. Whether it is the 75-year, \$4 trillion number, or the sustainable \$11.1 trillion number, what any of these plans do, so long as they are certified by the actuary of achieving permanent solvency, that transition financing number, no matter what it is, is just another way of saying we are paying off that debt today on a discounted present-value basis, putting the program on the road to full sustainability.

Here is how I propose to do it. Number one, dedicate from now on the rest of the Social Security surpluses to Social Security, to the personal retirement accounts. Under my plan, with the personal retirement accounts that we have had, the 10-year cost in our plan is \$1.2 trillion. We are going to get about \$2 trillion from the surpluses with interest over the next 12 years. You can more than pay for the 10-year start-up costs of this plan by simply stopping the raid of the Social Security Trust Fund and putting that into the Social Security accounts. Now, I believe we ought to unmask the true size of the deficit, show the country really what the deficit is. I think that is the prudent thing to do. More importantly, we need to reconnect the notion that if you pay a tax for a given purpose, like Social Security, that is where it ought to go. The other thing we do is we take Social Security off budget and set it up outside of the General Fund so as to make it much more difficult for us to go back to the days of raiding, and the financing goes into that off-budget Social Security fund.

The second thing we do is limit spending. We propose a one percent spending cap, meaning reduce spending by 1 percent for the

next eight years. Let's put this into context. This is my bipartisan bridge that I am trying to connect here. Everybody likes to say Bill Clinton was the biggest spender around. Well, under the Clinton years we grew spending at 2.6 percent. Today, the baseline is we are growing spending at 4.6 percent. So, what I am proposing in this bill is let's grow spending for the next 8 years at 3.6 percent a year instead of the 4.6 percent, transfer those savings over to the Social Security trust fund. Not only does that pay back the money has been taken out of the trust fund, pays those bonds back, but it largely takes you most of the way to fully funding this transition.

The third thing we do, is something that was developed by a number of economists, but chief among them Martin Feldstein from the Harvard Economics Department. He and others tell us that with these kinds of personal accounts, we will see a surge in corporate tax revenues coming into the government. What we say is if and to the extent that that happens, do not spend it on General Fund spending; put that into the Social Security trust fund and apply that to transition financing. If those three things occur now; three times according to the Social Security actuary, no borrowing whatsoever is needed to pay for the transition to these accounts. If one of these three things don't occur, or if they partly occur or don't occur, then you will have to borrow or float some bonds. You can bond-finance this entire program and pay for itself with the surpluses that this program materializes. I will get more into that in a second. What our bill basically does, it is like a home mortgage in that it is paid off over time, leaving the family with homeownership.

Contrast that to the current system, where by the year 2043 the debt will have accumulated to more than \$16.4 trillion in today's dollars, with ongoing additional debt and no personal wealth. Under our plan, the Ryan-Sununu plan, by 2038, according to the actuary's official score, Social Security enters permanent surplus, and by 2051 Social Security reaches permanent solvency and the personal accounts will have accumulated growing assets. Now, one more thing that you can accomplish by harnessing the power of compound interests is you can establish better benefits for retirees. This is how you make this generationally fair. A 70-year-old today gets about 4.5-percent rate of return on his or her payroll taxes. At my age, or my age cohort, we get about 1 percent. My children's age gets negative 1-percent rate of return. What we want to do is set up a system so that current and future workers can get the same kind of relative Social Security benefit that current retirees are getting.

Chairman MCCRERY. [Presiding.] We have about 4-and-a-half minutes here.

Mr. RYAN. Four-and-a-half minutes to vote? Okay. I will just quickly summarize. This chart shows you that a \$25,000-a-year 40-year old gets a 42-percent increase in their benefit, a person making \$40 grand a year who is 40 years old, 33-percent increase in their benefit. A person making \$60 grand a year, 66-percent increase in their benefit in our default plan.

Let me just conclude with this: One more thing you accomplish by using personal retirement accounts that are safe, that are conservative within a system, is not only do you make it fair for future

generations, you accomplish a greater thing for society, and that is, you radically decentralize the concentration of wealth in America. You narrow the gap between rich and poor in America. What the actuaries tell us is that, within 15 years, under this plan with these accounts, workers will have over \$7 trillion of their own individually owned accounts. That is not my number, that is the Social Security actuary's number; \$7 trillion that workers will own and control and have that they otherwise would not have had, that would have been sent to Washington. Half of Americans do not own stocks and bonds. The other half do; that is good. What this plan does—and any large personal account plan does—is it gives every single laborer and worker in America the choice and chance to be an owner in America so that the ownership society, the investor class is every willing working American. With that, I will just yield since we have votes. Thank you.

[The prepared statement of Mr. Ryan follows:]

Statement of The Honorable Paul Ryan, a Representative in Congress from the State of Wisconsin

Chairman McCreery, Ranking Member Levin and fellow subcommittee members, I appreciate the opportunity to testify before the subcommittee and to share my views on how we should work to strengthen the Social Security system. About 45 million seniors depend on Social Security to provide vital financial support during retirement years, and this important program provides critical benefits to widows and those with disabilities. It is my top priority to preserve Social Security and make sure it remains solvent for future generations.

As the debate over Social Security reform progresses in an increasingly politicized environment, we must not lose sight of the fact that this Congress has the tremendous opportunity to put the program on solid financial footing for the long term and enable Social Security to keep serving all generations well.

When I sat down to come up with a plan to strengthen Social Security for future generations, I chose to uphold several principles. The plan must protect the benefits of our seniors and near-retirees. It must not raise taxes or expose people to unnecessary risk, and it should maintain a strong safety net for all workers. It should also stop the government from raiding the Social Security trust fund to pay for unrelated programs. Lastly, it should make Social Security fair for future generations.

There's no denying that as time goes on, Social Security is becoming a poor deal for workers. Whereas a 70-year-old retiree today enjoys about a 4.5 percent return on the tax dollars they paid into Social Security, a 40-year-old in today's workforce can expect only about a one percent rate of return on their Social Security payments. Even worse, today's young children will get about a negative one percent return, assuming the government comes up with the funds to pay their benefit when they retire.

Improving the rate of return on workers' investment in Social Security and moving toward a retirement system in which workers can actually own a substantial part of their retirement benefit under Social Security should be at the heart of reform that strengthens and protects the program for future generations.

My legislation, H.R. 1776, the Social Security Personal Savings Guarantee and Prosperity Act, which I have introduced with Senator John Sununu of New Hampshire, creates personal accounts within the current Social Security framework without cutting benefits, raising taxes, or increasing the retirement age. Furthermore, the plan is completely voluntary, and workers who decide to stay in traditional Social Security rather than exercising the personal accounts option would receive the benefits promised to them under current law.

From 2006–2015, this legislation would allow workers to devote to tax-free personal accounts 5 percentage points of the current 12.4% Social Security payroll tax on the first \$10,000 in wages and 2.5 percentage points on taxable wages above that. Starting in 2016, workers will then be able to shift 10 percentage points of the current 12.4% on the first \$10,000 in wages and 5 percentage points on taxable wages above that. Once fully implemented, workers would be dedicating an average of 6.4 percentage points of the Social Security payroll tax to their accounts. This progressive account structure allows lower income workers to keep more of their FICA taxes in their personal account than higher income workers.

The plan is completely voluntary, and workers who decide to stay in traditional Social Security rather than exercising the personal accounts option would receive the benefits promised to them under current law.

Those choosing to participate in personal accounts will be enrolled in a “life-cycle” fund that automatically adjusts the worker’s portfolio based on his or her age, moving near-retirees into safe, government-backed bond funds. Workers may stay with this “life-cycle” fund or choose from a list of five index funds similar to those found in the federal Thrift Savings Plan (TSP) that members of Congress and federal employees have that helps them save for retirement. The federal government would then back the personal accounts with a guarantee that workers receive at least as much as Social Security promises under current law, providing an added level of security for workers’ retirement savings.

To finance the transition, we propose a three-tiered approach.

First, our plan separates Social Security and the reform’s transition financing from the rest of the federal budget and dedicates the Social Security surplus—projected until 2017—to Social Security. For decades, Congress has used the surplus to pay for priorities other than Social Security, and this practice must stop if we want to save the program for our children and grandchildren.

Stopping the raid on Social Security tax dollars goes a long way toward jump-starting this reform. In fact, the total projected surplus over the next ten years—about \$2 trillion including interest—is more than enough to pay the \$1.2 trillion transition cost over that same period.

In addition to devoting the short-term surplus to Social Security, our legislation would slow the growth of federal spending by one percentage point a year for eight years and transfer the savings to Social Security.

Lastly, the anticipated increase in corporate tax revenue, sparked by increased investment through personal accounts, would go to the Social Security Trust Fund.

With these three steps successfully implemented, no borrowing would be necessary to finance the transition to a solvent Social Security system. If one of the steps doesn’t occur, federal bonds could be issued to help reimburse Social Security for the surpluses it has lent the government in the past. Even in this case, the temporary cost would be worth it because our plan achieves permanent solvency and pays off Social Security’s entire unfunded debt for the foreseeable future.

The Chief Actuary of Social Security has already scored this legislation as achieving permanent solvency for the program, without benefit reductions or tax increases. This plan also pays off the entire \$11.1 trillion unfunded debt owed to Social Security.

By establishing personal accounts within the Social Security system, we can give every American worker the choice of building a nest egg for his or her retirement. With personal retirement accounts, every worker will become a laborer and a capitalist earning a much higher rate of return on their payroll tax dollars than the current system can currently offer them. Furthermore, I firmly believe that there is no better way to bridge the wealth gap and decentralize the concentration of wealth in America than to adopt personal accounts like the ones Senator Sununu and I are proposing.

I look forward to working with my colleagues on the Social Security Subcommittee and ultimately, the full Ways and Means Committee on this issue. Thank you and I look forward to your questions.

H.R. 1776, the Ryan-Sununu Social Security Personal Savings Guarantee and Prosperity Act

This bill empowers workers with the freedom to choose a large personal account option for Social Security, with no benefit cuts or tax increases.

- From 2006–2015, the Ryan-Sununu legislation would allow workers under Social Security to devote to tax-free personal accounts 5 percentage points of the current 12.4% Social Security payroll tax on the first \$10,000 in wages and 2.5 percentage points on taxable wages above that. Starting in 2016, workers will then be able to shift 10 percentage points of the current 12.4% on the first \$10,000 in wages and 5 percentage points on taxable wages above that. Once fully phased-in, this creates a progressive structure with an average account contribution among all workers of 6.4 percentage points.
- Workers will be enrolled in a “life-cycle” fund that automatically adjusts the worker’s portfolio based on his or her age—moving near-retirees into safe, government-backed bond funds. Workers may stay with this “life-cycle” fund or choose from a list of five index funds similar to those found in the federal Thrift Savings Plan (TSP).

- The accounts are backed up by a safety net guaranteeing that workers would receive at least as much as Social Security promises under current law.
- Survivors and disability benefits would continue as under the current system unchanged.
- Social Security and the reform's transition financing are placed in their own separate Social Security budget, apart from the rest of the Federal budget.

Financing the transition:

- The short-term Social Security surpluses now projected until 2017 are devoted to financing the transition—instead of fueling other government spending;
- A national spending limitation measure that would reduce the rate of growth of Federal spending by one percentage point a year for eight years will be imposed. These savings are transferred to the Social Security Trust Fund;
- One of the basic assumptions of the Ryan-Sununu plan is that increased investment through personal accounts will result in increased tax revenues to the General Fund. The Ryan-Sununu plan recaptures a set portion of these projected revenue increases and dedicates them to the Social Security Trust Fund.

Social Security Chief Actuary's Analysis:

- Permanent and growing surpluses begin in 2038.
- Permanent solvency achieved in 2051.
- The reform would also greatly increase and broaden the ownership of wealth and capital through the accounts. All workers could participate in our nation's economy as both capitalists and laborers. **Under the Chief Actuary's score, workers would accumulate over \$7 trillion dollars in their accounts by 2024. Wealth ownership throughout the nation would become much more equal, and the concentration of wealth would be greatly reduced.**
- The official score shows that by the end of the 75-year projection period, instead of increasing the payroll tax to over 20% as would be needed to pay promised benefits under the current system, the tax would be reduced to 5.18%, enough to pay for all of the continuing disability and survivors' benefits. **The bill includes a payroll tax cut trigger providing for this eventual tax reduction once all transition financing and debt obligations have been paid off.**
- Eliminates the \$11.1 trillion unfunded liability of Social Security, which is almost three times the current reported national debt.

Key Figures:

- 10—year transition cost equals \$1.2 trillion (without offsets).
- 75-year total cost equals \$2 trillion (without offsets).
- Money attained through spending limitation equals \$7.323 trillion.
- Money attained through corporate tax recapture equals \$7.651 trillion.
- By the end of the 75-year actuarial window, (when you take into account the Ryan-Sununu plan's financing mechanisms) **the plan covers its cost and generates about \$4.4 trillion in extra money.**

Chairman MCCRERY. I have a few questions.

Mr. RYAN. I have got to go vote. Thank you, Chairman.

Chairman MCCRERY. Thank you, Mr. Ryan. I have been assured by a couple Members I saw that they would be back to give their testimony, so—I am tempted to say a few words myself, but that may not be fair, so I will withhold.

[Recess.]

Chairman MCCRERY. Any Members who submitted testimony and who failed to appear this afternoon, their written testimony will be submitted in the record. Welcome, gentlemen, you are our first live ones since the vote, so please have a seat. Gentlemen, you are welcome to each make remarks or let one speak for the other, whichever you prefer, but Mr. Boyd has been sitting for a while, so I think I will let him go first. Then you all can decide how you want to handle the presentation. You may proceed.

Mr. BOYD. Mr. Chairman, if it is suitable to the Chair, I would like Mr. Kolbe to go first.

STATEMENT OF THE HONORABLE JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. What we are saying here fits in order for my remarks to go first. Thank you very much, Mr. Chairman, for this opportunity to testify, and thank you very much for holding this hearing. I think this is part of a process that is very, very important. I am very mindful of the fact that a couple Members of the Subcommittee have introduced pieces of legislation themselves, so I will be very careful not to say anything that would be negative at all toward any piece of legislation that has been introduced by others. I wouldn't anyhow.

I think, as you know, Mr. Chairman, for the last five congresses, I have introduced bipartisan legislation to reform Social Security—first, I did it with Charlie Stenholm, and now with Allen Boyd. Each time that we have introduced this legislation, the steps we have to take to achieve solvency become more difficult because Social Security's financial condition worsens with each succeeding year. As Members of Congress, we can disagree about how to best repair Social Security, but we ought not to let its financial condition deteriorate any longer. So, I applaud the Subcommittee for holding this hearing to focus our attention on how we can strengthen this vital program.

By appearing here today with my co-sponsor, Allen Boyd, we prove that there is a Social Security reform plan that Republicans and Democrats alike can support. It is the only bipartisan plan that has been introduced in either the House or the Senate. The Kolbe-Boyd plan includes principles that Members on both sides of the aisle can endorse. I will briefly lay out just a couple of those principles, and then allow Mr. Boyd to elaborate on the fact that this is the most fiscally responsible plan yet proposed.

First, Kolbe-Boyd makes Social Security more progressive than it is today. We modify the benefit formula to achieve a higher replacement rate for low-income workers. In addition, higher-wage earners would experience slower benefit growth. As you see in the estimates that we have provided to you, the low earners would receive higher guaranteed benefits under Kolbe-Boyd than what they can expect under current law. I repeat, low earners receive a better deal with the Kolbe-Boyd plan than the current Social Security system. This increased benefit is before you include any money that is derived from personal retirement accounts. Second, the Kolbe-Boyd plan expands the safety net. Under our plan, anyone working a full career is guaranteed a minimum defined benefit equaling 120 percent of poverty. That is higher than the current law.

We also raise widows' benefits to 75 percent of the couples combined benefit; again, higher than current law. Not only do we believe in maintaining the Social Security safety net, we believe in making it better, and that is what our provisions would do. Finally, we believe that personal accounts should be affordable, with no obligation to invest in stocks, but a choice to invest in Treasury bills, or in bonds, or in index funds. Kolbe-Boyd lets younger workers place slightly more than 2 percent of their earnings into an ac-

count, 2 percent as a carve-out of what they are now paying in their Social Security taxes.

Our accounts are more affordable because they are smaller, and we finance them through the Social Security surplus rather than let the surplus be raided for other government programs. Under Kolbe-Boyd, the trust fund surplus dollars go to retirement income, not to more Federal spending. Plus, by offering the possibility of accounts that only contain Treasuries, Kolbe-Boyd will provide a guaranteed benefit for retirees, and even that benefit is still better than what they receive today. Let me conclude with this: Mr. Boyd and I have approached Social Security's deficit not as a Republican or a Democratic issue, but as a problem that our Nation has to solve. That is why we have sought bipartisan agreement in an atmosphere devoid of partisan rhetoric that accomplishes nothing for the next generation. That is why we believe our plan represents the best hope for Social Security's future. With that, let me turn it to my colleague.

STATEMENT OF THE HONORABLE ALLEN BOYD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. BOYD. Thank you very much, Mr. Chairman. I want to thank you for inviting us here to speak. I want to thank your Ranking Member, my friend, Mr. Levin, and also the Ranking Member, Mr. Engle, for his involvement in this issue. I have often heard that Social Security was the third rail and that it is something you should stay out of. I never understood the implications of that until I got involved in this issue. Like my friend, Mr. Kolbe, has said, the rhetoric, the partisan rhetoric that exists around this issue has stifled a productive debate on this issue. What he and I want to do and have done is to prove that you can set aside that rhetoric and develop a bipartisan solution that works and deals and addresses the principles that both sides would embrace.

I first became interested in Social Security reform, Mr. Chairman, back in 1999 when my good friends Charlie Stenholm and Jim Kolbe and I started talking about the long-term solvency of the Social Security Trust Fund. My primary interest in Social Security reform then and now is to ensure solvency, to ensure that this vital program continues to provide basic retirement, survivor and disability benefits for future generations. I also believe that, to achieve solvency, we must address all three components of Social Security; that is, the benefits side, the revenue side and the investment side. Today, I want to specifically address how our bill works to achieve the long-term solvency, what components do we have in it to achieve solvency in the program.

In addition to the savings generated by progressivity, which Congressman Kolbe has talked about, our proposal would increase the taxable wage base to set the wage cap at 87 percent of all wages. In dollar terms, this would increase the cap from \$90,000 to \$142,500 over the next approximate 5 years. In the past, as you know, Mr. Chairman, the payroll taxes covered 90 percent of the Nation's earnings while currently, it covers only 84 percent. By gradually raising the cap to cover 87 percent of all wages, we are modernizing Social Security to keep up with economic growth.

Our proposal would also require that the Bureau of Labor and Statistics adopt the chained Consumer Price Index (CPI) when it computes COLA and Tax Code adjustments. Economists agree that the chain CPIs are a better and more accurate tool to measure the cost of living. This proposal was recommended by the Blue Ribbon Commission in the nineties that studied the CPI, and we would use savings from this to strengthen and make solvent the Social Security program. In terms of affordability, our plan is the most fiscally responsible. The Kolbe-Boyd bill has been scored by the Congressional Budget Office (CBO) and the Social Security Administration (SSA) as achieving solvency for 75 years and beyond. While solvency is our ultimate goal, our plan achieves this honestly and reasonably because we make changes to all three factors of Social Security. Kolbe-Boyd has by far the lowest transition costs of all the plans that have been introduced. I strongly believe that any Social Security proposal considered by the House of Representatives should include concrete proposals to pay for the transition costs. In other words, Mr. Chairman, there is no free lunch.

I would submit to you that our plan has no transition cost by the fact that there is no additional general revenue required. The costs for this plan to pay for the reforms are contained in the structural changes we make in the program and in wise use of the existing trust fund. I want to make two other points, Mr. Chairman, and—well, let me stop there, Mr. Chairman, because there will be a question-and-answer session.

Mr. LEVIN. Probably not.

Chairman MCCRERY. Since you all are the only ones here.

Mr. BOYD. Well, Mr. Chairman, I want to make two other points, and I will wind up. First of all, I reject the notion that the Kolbe-Boyd bill is a privatization of Social Security. Social Security is a government-run guaranteed defined benefit program, and we maintain it that way. Even though our plan contains personal accounts, Mr. Chairman, I have long believed that solvency from a mathematical perspective can be achieved without personal accounts. Those are the two points that I want to make, and I want to thank you and your Ranking Member for giving us the opportunity to be here today.

[The prepared statements of Mr. Kolbe and Mr. Boyd follow.]

Statement of The Honorable Jim Kolbe, a Representative in Congress from the State of Arizona

I thank the Chairman and Members of the Subcommittee for the opportunity to testify today. For the past five Congresses, I have introduced bipartisan legislation to reform Social Security—first with Charlie Stenholm, now with Allen Boyd. Each time my colleagues and I introduce our bill, the steps we have to take to achieve solvency become more difficult, because Social Security's financial condition worsens with each succeeding year. As Members of Congress, we can disagree about how to best repair Social Security, but we must not let its financial condition deteriorate any longer. So I applaud the Subcommittee for holding this hearing to focus our attention on how we can strengthen this vital program.

By appearing here today with my cosponsor, Allen Boyd, we prove there is a Social Security reform plan that Republicans and Democrats alike can support. As the only bipartisan plan in Congress, Kolbe-Boyd includes principles that Members on both sides of the aisle can endorse. I will briefly lay out some of those principles, then allow Mr. Boyd to elaborate on the fact that this is the most fiscally responsible plan yet proposed.

First, Kolbe-Boyd makes Social Security more progressive than it is today. We modify the benefit formula to achieve a higher replacement rate for low-income

workers. In addition, higher-wage earners would experience slower benefit growth. As you see in the benefit estimates we have provided, low earners would receive higher guaranteed benefits under Kolbe-Boyd than what they can expect under current law. I repeat: low earners receive a better deal with Kolbe-Boyd than the current Social Security system. And this increased benefit is *before* you include any money derived from personal retirement accounts.

Second, Kolbe-Boyd expands the safety net. Under our plan, anyone working a full career is guaranteed a minimum *defined* benefit equaling 120% of poverty—that is higher than current law. We also raise widows' benefits to 75% of the couple's combined benefit—again, higher than current law. Not only do we believe in maintaining Social Security, we believe in making it better. That is what these provisions would do.

Finally, we believe that personal accounts should be affordable, with no obligation to invest in stocks, but a choice to invest in T-bills, or in bonds, or in index funds. Kolbe-Boyd lets younger workers place slightly more than 2% of their earnings into an account. Our accounts are more affordable because they are smaller, and we finance them through the Social Security surplus rather than let the surplus be raided for other government programs. Under Kolbe-Boyd, the Trust Fund's surplus dollars go to retirement income, not to more federal spending. Plus, by offering the possibility of accounts that only contain Treasuries, Kolbe-Boyd would provide a guaranteed benefit for retirees.

Let me conclude with this: Mr. Boyd and I have approached Social Security's deficit not as a Republican or Democratic issue, but as a problem that our nation has to solve. That is why we have sought bipartisan agreement—in an atmosphere devoid of partisan rhetoric that accomplishes nothing for the next generation. That is why we believe our plan represents the best hope for Social Security's future.

Statement of The Honorable Allen Boyd, a Representative in Congress from the State of Florida

Mr. Chairman, I want to thank you for holding this hearing on a subject that is vital to every American. In addition, I want to thank Ranking Member Levin and the Full Committee Ranking Member, Mr. Rangel, for their work on this complex issue.

I first became interested in Social Security reform back in 1999 when my good friends, Charlie Stenholm and Jim Kolbe, and I started talking about the long term solvency of the Trust Fund. My primary interest in Social Security reform, then and now, is to ensure this vital program continues to provide basic retirement benefits for future generations.

I strongly believe that to achieve solvency, we must address all three components of Social Security—the benefit side, the tax side, and the investment side.

Today I want to specifically address how our bill works to achieve the long-term solvency of Social Security.

In addition to the savings generated by progressivity, our proposal would increase the taxable wage base to set the earnings cap at 87% of all wages. In dollar terms, this would increase the cap from \$90,000 to \$142,000 over five years. In the past, the payroll tax has covered 90% of the nation's earnings, while currently it covers only 84%. By gradually raising the cap to cover 87% of all wages and moving it to a middle ground that is fairer, we are modernizing Social Security to keep up with economic growth.

Our proposal would also require the Bureau of Labor Statistics to adopt the chained CPI when it computes the COLA. Economists agree that the chained CPI is a better and more accurate tool to measure the cost of living. This proposal was recommended by a blue ribbon commission in the 1990's that studied the CPI, and we would use savings from this to strengthen Social Security.

In terms of affordability, our plan is the most fiscally responsible. The Kolbe-Boyd bill has been scored by the Congressional Budget Office and the Social Security Administration as achieving solvency for 75 years and beyond. While solvency is our ultimate goal, our plan achieves this honestly and reasonably because we make changes to all three factors of Social Security reform. Kolbe-Boyd has by far the lowest transition costs of all of the plans that have been introduced. I strongly believe that any Social Security reform proposal considered by the House of Representatives should include concrete proposals to pay for the transition costs. In other words, there is no "free lunch."

Again, I want to thank the Chairman and Ranking Member for giving me the time to speak before the Subcommittee today on this important issue.

Chairman MCCRERY. Just one very quick question. Are you saying that there are no transition costs to your proposal?

Mr. BOYD. Well, Mr. Chairman, currently the surpluses, the Social Security surpluses, go into a trust fund which are used, as you well know better than I, and used by the Federal government for other programs. To do our program, you would—the savings or the cost required to implement it would be achieved in two ways. One is in use—is in the savings that are inherent in the plan itself. Secondly, you would have to use part of the existing trust fund dollars to transition in a fashion that would be faster than others under current law, if that makes sense.

Mr. KOLBE. Can I just add to that?

Chairman MCCRERY. From a unified budgetary standpoint though, what are the transition costs over 10 years?

Mr. KOLBE. Between \$600 and \$650 billion dollars. One of the reasons our system is as low as it is because we do have some things at the front end that get more cash in, such as the change in the acceleration of the retirement age and—

Chairman MCCRERY. I understand your plan. I thought there was a transition cost, so I just want to make sure. The \$650 billion, to some that seems like a lot. It is lower than anybody else's, I understand, but for some, it is still a lot. Okay. Thank you very much. Congratulations, gentlemen, on having a bipartisan plan. Next, we have the Representative from California. Ms. Solis, you may proceed. Your written testimony may be presented for the record, and you may summarize as you wish.

STATEMENT OF THE HONORABLE HILDA L. SOLIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. SOLIS. Thank you very much, Mr. Chairman. I am Congressman Hilda Solis representing the 32nd Congressional District of California which incorporates a largely Hispanic community. About 65 percent of the population is Latino; 25 percent is Asian, and the rest are mixed. The Los Angeles County is a very diverse community. I am very proud to also be representing the Chair of the Democratic Women's Working Group and also the Democratic Co-chair of the Congressional Caucus on Women's Issues. I would like to thank our Ranking Member Levin and his staff for inviting me to speak today on behalf of my constituents and on behalf of the millions of women that would be affected by the proposed changes to the Social Security program.

President Bush's proposed plan for Social Security would have a devastating impact on women. Currently, there are more than 7.5 million women receiving Social Security benefits, and 2.7 million children under the age of 18 who receive disability or survivor benefits. Women, as you may know, make up a vast majority, 60 percent, in fact, of Americans receiving Social Security, and over half of all women over the age of 65 will live in poverty without Social Security. I know in my own community, there are a good number

of people in east Los Angeles in the San Gabriel Valley, approximately 60,000 people who receive Social Security benefits, and many of those are disabled women, wives and widows who rely very heavily on this hard-earned monthly Social Security check.

I have heard overwhelmingly from many of my constituents and particularly from women throughout the country because I have traveled the different States, that they strongly oppose President Bush's privatization plan. Under the President's privatization proposal, women will have seen fewer benefits to rely on when they retire. Women, as you know, live longer than men, and are more likely to run out of personal savings before men. Mothers also sacrifice earnings in order to care for their children, and oftentimes because they take time out of the work force to raise their children or care for an elderly individual in the family. Women professionals, family caretakers, and widows also endure continuing disparities in their income and savings. The continuing pay gap, for example, which accounts for women making about \$11,000 less than their male counterpart, means women have less money to invest in private accounts, period. The proposed plan would account for 42 percent benefit cuts for a woman earning \$58,000 a year. These benefits are critical to women, especially young women, older women, and women of color, minority women.

Social Security provides more than 90 percent of the total income for two-thirds of non-married Latinas. The privatization plan will not help Latino families, and will especially hurt female Latinas. The proposal will also be detrimental to women who receive survivor benefits. Nationally, 50 percent of Social Security beneficiaries receive all or part of their benefit either as a widow or widower spouse, child of a worker, or a disabled worker. Over 80 percent of these beneficiaries are women and children. Right now, the typical widow receives a Social Security benefit of \$865 a month. If the 45 percent cut projected by the CBO were to take effect, that would leave her with only \$476 per month, even when the proceeds from personal accounts are included.

We understand that we are facing a long-term challenge here with Social Security, but in my belief, privatization is not the way to go. I have heard it repeatedly from well over 500 to close to a thousand people in my own district, having held a series of forums in my own district. People are sending us notes, e-mails, letters, people that don't even speak English well know the difference that privatization is going to actually be a drawback for them and their livelihood. Thank you very much, Mr. Chairman, and Mr. Levin, for allowing me the opportunity to speak to you this afternoon.

[The prepared statement of Ms. Solis follows:]

**Statement of The Honorable Hilda L. Solis, a Representative in Congress
from the State of California**

Good afternoon.

I am Congresswoman Hilda Solis and I represent the 32nd Congressional District in California—which incorporates the San Gabriel Valley and parts of East Los Angeles, in Los Angeles County. I am also the Chair of the Democratic Women's Working Group and the Democratic Co-Chair for the Congressional Caucus for Women's Issues.

I would like to thank Ranking Member Levin and his staff for inviting me to speak on behalf of the people of California's 32nd district and on behalf of the mil-

lion of women that will be affected by the proposed changes to the Social Security program.

President Bush's proposed plan for Social Security would have a devastating impact on women.

Currently, there are more than 7.5 million women receiving Social Security benefits and 2.7 million children under 18 who receive disability or survivor benefits. Women make up a vast majority—60% in fact—of Americans receiving Social Security. Over half of all women age 65 and older would live in poverty without Social Security.

I know in the community I represent, in East Los Angeles and the San Gabriel Valley, there are nearly 60,000 Social Security beneficiaries—many of whom are disabled women, wives and widows, who rely heavily on their hard-earned monthly Social Security benefits.

I have heard overwhelmingly from my constituents and from other women throughout the country that they strongly oppose President Bush's privatization plan. Under the President's privatization proposal, women will have even fewer benefits to rely on when they retire.

Women live longer than men and are more likely to run out of personal savings. Mothers also sacrifice earnings in order to care for children and the elderly leaving them with lower personal savings and lower Social Security benefits. Women professionals, family caretakers, and widows also endure continuing disparities in their income and savings.

The continuing pay gap, for example, which accounts for women making about \$11,000 less than their male counterpart, means women have less money to invest in private accounts and less money to save.

The proposed plan would account for a 42% benefit cut for a woman earning \$58,000 a year.

These benefits are critical for women, especially young women, older women and women of color.

Social Security provides more than 90% of total income for two-thirds of non-married Latinas. The privatization plan will not help Latino families and will especially hurt Latinas in the future. The proposal will also be detrimental to women who receive survivor benefits.

Nationally, 50% of Social Security beneficiaries receive all or part of their benefit either as the widow or widower, spouse or child of a worker, or as a disabled worker. Over 80% of these beneficiaries are women and children. Right now, the typical widow receives a Social Security benefit of \$865 per month. If the 45% cut projected by Congressional Budget Office were to take effect currently, the typical widow would receive only \$476 per month, even when the proceeds from private accounts are included.

We understand that we are facing long-term challenges, but the Social Security privatization scheme is not the answer. Privatization only worsens Social Security's challenges. We need to focus on strengthening Social Security for future generations. All American workers should get the benefits they pay for.

Chairman MCCRERY. Thank you, Ms. Solis. Next, the gentleman from Mississippi, Mr. Thompson. Your written testimony has been inserted in the record, and you may summarize as you please.

STATEMENT OF THE HONORABLE BENNIE G. THOMPSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. THOMPSON. Thank you very much, Mr. Chairman, and, Ranking Member Levin, and other Members of the Committee. Social Security for me is a very personal matter. My father died when I was in tenth grade, and it was his earnings that allowed me to complete high school and complete college. The earnings were \$42 a month. In my State, in the sixties, that wasn't too bad. It was that that allowed me to move on and finish college and ultimately complete a dream of now being a Member of Congress. Unfortu-

nately, my father never saw his only son reach that goal, but nonetheless, it was Social Security and the survivor benefit of Social Security that allowed me to do that.

Another example of that is a number of young people, that I knew very well, went to Vietnam. They didn't come back, but their Social Security benefits did and allowed a number of their wives and children to have a basic level in life for survival. Those are two great programs for us to risk, Mr. Chairman, and other Members of the Committee. I don't want people to misunderstand the importance of that. In my district, there are some 122,000 Social Security beneficiaries. Of that number, 61,000 are retired; 22,000 are disabled; 13,000 are widowers. So, those numbers aggregated in the demographics of my district, which as some of you know has a high percentage of poverty, I have the highest number of earned income tax recipients living in my district, so Social Security is an absolute necessity.

Looking at the program, I don't know many programs here in Washington that have never been late with a payment. Social Security has always been on time. In my area, you can look for the postman and the Social Security check, and pretty much, they are on time. I say that because I live in a community of 500 people, and you get to meet a lot of people in a community that size, but nonetheless, Social Security is absolutely critical to that area.

Mr. Chairman, other Members of the Committee, the President was in my district 2 weeks ago, he came on election day—which was not the best day to do a townhall meeting on Social Security, but nonetheless, he came. Every person the television crews could find had real problems with privatization. They said it was something that they didn't want to risk. Most of them admitted that they voted for the President, but in this instance, he is wrong, and we are not willing to risk, for so many people, that income. So, I would like for this Committee, in its deliberation, to remember the survivors, remember the people who absolutely don't have 401(k)s, don't have other things to depend on other than Social Security. If there are some problems, I think you can look at other options other than privatization of the accounts. Thank you very much.

[The prepared statement of Mr. Thompson follows:]

Statement of The Honorable Bennie G. Thompson, a Representative in Congress from the State of Mississippi

- I would like to thank Ranking Member of the Committee, Charles Rangel and Ranking Member of the Social Security Subcommittee, Sander Levin for the invitation to testify.
- Social Security is a personal matter for me. In the 10th grade, I lost my father.
- As his child, I received \$42 a month for six years (\$260 in 2005)—money that helped me and my family.
- The money came from funds that he had earned as a working person and, pooled with money from other working people, provided security for his family. Because of Social Security payments and my mother's sacrifices, I was able to finish high school and college. Without this money, it would have been impossible to complete my schooling.
- Other examples of the need for Social Security are that I had childhood friends whose fathers were killed in Vietnam. They received Social Security survivor benefits. Without Social Security, I could only wonder where they would be: losing a parent at a young age without Social Security.
- A report by the non-partisan Center on Budget Priorities recently made the following statement about Social Security going bankrupt: "These statements of

this Administration seriously misrepresent Social Security's financing and the challenges the program faces."

- In my District, the Second Congressional District of Mississippi:
 - The total number of Social Security beneficiaries is: 122,168
 - The total number of Retired beneficiaries is: 61, 607
 - The total number of disabled workers is: 22,954
 - The total number of widowers: 13,822
 - The number of wives and husbands: 4,809
 - The number of children: 18,976
 - The number of old age beneficiaries: 70,988
 - Monthly Benefits in the District (Dollars):
 - All beneficiaries: \$86,121
 - Retired workers: \$50,179
 - Widowers: \$9,574
- Social Security is critical for the people of my District. As a Democrat, I am convinced that we need to protect Social Security benefits for retirees, future retirees, survivors and disabled people.
- Social Security has been an on time benefit every year for its beneficiaries since the Roosevelt Administration and must continue to be so.
- As many of you know, I held town hall meetings in my District. The title of the meeting was Fully Fund it and Leave it alone. At the meeting, experts on Social Security presented the privatization plan to beneficiaries and future beneficiaries.
- My District is the second poorest District in the country. As a result my constituents rely heavily on Social Security benefits for their well being and the well being of their family.
- These meetings were a way to gauge what my constituents were feeling about this Administration's privatization plans for Social Security. The reaction of seniors, widows and disabled folks was overwhelming.
- Time and time again, my constituents told me how Social Security was the reason why they were not living in absolute poverty. Social security helped them pay for their housing, schooling for their children and their family's prescription drugs.
- Recently, after my town hall meetings, the President paid a visit to my district to promote his social security plan. My constituents made their position clear and stand by that. Social Security is, has and will be off limits for wall street brokers and the President alike.
- Social Security should not be compromised in order to compensate for excessive spending and tax cuts. In short, Social Security must be fully funded and left alone.

Chairman MCCRERY. Thank you, Mr. Thompson. The next the gentleman from the State of Texas, a gentleman who has shown some interest in this subject, even though he is not on a Committee of jurisdiction, and we welcome his input, Mike Conaway of Texas. You may proceed.

STATEMENT OF THE HONORABLE K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. CONAWAY. Thank you, Mr. Chairman. I ask unanimous consent that my full testimony be put in the record.

Chairman MCCRERY. Without objection.

Mr. CONAWAY. Thank you, sir. As a point of personal privilege, thank you for attending the meeting with AARP and some other Democrats and Republicans. While we didn't solve anything, at least we had a chance to visit with each other. I will get right to the four recommendations that I would make with respect to personal retirement accounts.

First would be the concept that, as you age and begin to reach retirement age, the options available for investment would begin to narrow. In other words, if at 30, a worker might want 70-plus percent of their personal retirement account in equity funds, and 30 percent at fixed income; at 55, most reputable retirement planners would recommend to their clients that they begin to shift that risk profile so that they would be much less exposed to the volatility of the market because they have got less time for their account to recover from that. I think we can build into the system some safeguards that would address this issue. One of the big issues that I hear is: what happens if I am fixing to retire and the stock market tanks? I think we can build into the personal account system to address that particular issue.

The second recommendation would be that, as a part of the program, that as I retire, because I have been participating in personal savings accounts, my defined benefit that I have earned with the 8.4 percent of my taxes that have gone into that account earned me a lower defined benefit. Built into this requirement would be a distribution scheme that would say I need to take a part of my personal retirement account and buy a lifetime annuity that would make up the difference between what I have earned with lower contributions and what somebody would have earned had they opted out of the Social Security system, so that each retiree at 65 is in a position of having the exact same lifetime benefit. Then I, having taken advantage of the personal savings account, have money on top of that within a different distribution scheme that would be available to me.

The third point that I would make is that, while we talk about ownership—and it is an important element of these personal savings accounts—these first two recommendations and this third one would put restrictions on that ownership. This third recommendation would be that these personal retirement accounts be used solely for retirement, that whatever life events may occur, buying a home, critical illnesses, all of those things are very, very tempting to allow for distributions to come out of that personal retirement account. I would think that we would build into that system restrictions that say, these moneys, whatever they are, are not allowed to you until you retire. The current Social Security is like that. I can't borrow against it. I can't pledge it, and I can't spend it early. In order to protect society from having people who have not paid into the system then become, in effect, wards of the State, I would think that we would want restrictions in there that say these are retirement dollars, period, as tempting as it is to borrow or buy a house or college education for children, or whatever the life event might be, that we not allow those kinds of things.

The fourth is an option that I think may be attractive to some, and that is that most upper-and middle-income individuals have savings and retirement opportunities on top of their Social Security, IRAs, Thrift Savings Plans that Federal employees participate in, 401(k)s, and others. For the low-income wage earner, often it is a barrier to doing those kinds of things, partly because of just the administrative part of it. I would recommend that we allow an optional pretax payroll deduction in addition to whatever we decide on goes in from the Social Security tax piece. On top of that, I could

elect on a payroll deduction plan to add additional moneys to this very account that would encourage me. Now, it doesn't sound like much, but very small amounts of money added week after week after week would have a dramatic impact on those savings.

There is a great silent majority in America that consists of future generations of retirees. It is those silent generations, many of whom are too young to vote and are not currently engaged in this process that are depending on this Congress to make these difficult decisions. If we do not fix Social Security now, they will eventually look at us, wondering why we didn't do everything in our power to ensure a fair retirement system. Those who are speaking with the loudest voices in opposition to substantive Social Security reform do not represent the people in my district in Texas or the majority of the population. They certainly do not represent our children and our grandchildren's generation. This debate involves all Americans, including those who cannot speak for themselves. We have the ability to leave a better system for them than the one we inherited, a Social Security system that is sustainable and provides true retirement security for all Americans. Thank you, sir. I appreciate the opportunity to testify today. Any questions?

[The prepared statement of Mr. Conaway follows:]

**Statement of The Honorable K. Michael Conaway, a Representative in
Congress from the State of Texas**

**Four Recommendations from a CPA: Eliminating the Risk Associated with
Personal Retirement Accounts**

Mr. Chairman and distinguished Members of the Committee, it is an honor and a privilege to testify before you today about one of the most important issues we will address in this Congress: Social Security Reform.

I would like to commend the members of this committee on the work you have already done and convey my appreciation for the hard work and difficult decisions you will face in the coming weeks and months.

I would also like to take a moment to thank Chairman McCrery for joining me in the first bi-partisan meeting with the AARP last month. While I am still very disappointed with the tone and rhetoric surrounding the Social Security debate and the abundance of negative TV ads focusing on scaring senior citizens, it was encouraging to have a meeting where both sides could use their "inside voices" and actually listen to each other. I found our discussion to be refreshing and encouraging and I thank the Chairman for participating.

I am here today to offer four specific recommendations that I feel will strengthen personal retirement accounts I'm a CPA, father of four, and a grandfather of six. I tend to look at Social Security reform through this perspective and that is why I have come to testify before you today.

We would be remiss to only talk about Social Security in the context of the present and the future. The history of this important program can help point us in the right direction. When President Roosevelt signed the Social Security Act into law on August 14, 1935, he said, "Young people have come to wonder what would be their lot when they came to old age.—We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age."

The same is true today. Young people, like my two sons and two daughters, are skeptical about what will be left of Social Security when they retire. Too many Americans will spend a lifetime paying into this system, but expect little or no return on their investment come retirement. While there are no guarantees, our predecessors have tried to frame a law that gives some measure of protection to the average family against "poverty-ridden old age." But without changing the current system, that will not continue.

Americans contribute their hard earned dollars into a system that cannot sustain itself. If we continue down the current path, the federal government will not be able

to ensure benefits even at the poverty level to future generations. It is the responsibility of this Congress to produce solutions so our children and grandchildren can look forward to a safe and secure retirement. This is simply an issue of generational fairness. In order to be fair to our nation's young people, we must modernize the Social Security system now so that it will be able to provide true retirement security for generations to come.

The issues we are facing are not just about the Social Security program, they are also about retirement as a whole. We need to fix this problem at its root by looking at a broad array of retirement related issues. Congress must address Social Security reform as part of a broader "Retirement Security" plan that addresses personal savings, pensions, taxes, long-term health care and every other aspect of retirement.

We must be united behind two goals, a permanently solvent Social Security program and a system that is equally fair for future generations as it is for today's. I have heard a lot of rhetoric saying that solvency and generational fairness are two separate and opposing goals. I disagree. It is possible to devise a plan that simultaneously creates solvency while making the system more equitable for future generations.

Thus far, the proposals for individual accounts have been given the most attention and have been the most contentious. Individual accounts are part of the solution and are necessary if we want to move Social Security away from the current pay-go format that is neither equitable nor sustainable. Just to be clear, individual investment accounts should have a very limited set of investment options modeled after those included in the current Federal employee retirement plan. There is a major misconception out there that people will be able to invest in individual stocks with these accounts. I'm sure this Committee would be unanimous in opposing investments in individual stocks.

Dating back to the 106th Congress, there has been much talk about a Social Security "lock box," to protect Social Security funds from the spendthrift hands of government. Individual accounts are the ultimate "lock box." These accounts will be 100% safe from the government.

The accounts will belong to the individual, have limited risk, and be fully inheritable. However, we must be clear with the American people. While individuals will have substantial control and total ownership over their retirement accounts, there must be limits, safeguards, and regulations on the way accounts are administered.

I've heard a number of my colleagues describe personal accounts as a risky scheme. This characterization is not only unfounded, but also incredibly insulting to millions of Americans. The assumption is that most Americans aren't smart enough or responsible enough to manage their own accounts. Currently, over two million employees manage their own personal accounts as part of the Federal Employee's Retirement System (FERS). This system of individual accounts does not require a high level of expertise to manage and with a few important restrictions can minimize risks.

As a CPA, I have dealt with retirement planning and tax related issues for more than 30 years. I believe I can bring a special perspective to this important debate and I would like to take this opportunity to voice four recommendations to this Committee:

My first recommendation relates to the way personal accounts are invested over a person's lifetime. Most competent retirement advisors recommend a shift of risk concentrations in investments as their clients near retirement. To give an overly simplified example, a 30 year old might prefer to have 70% of his retirement account in a stock index fund and 30% in a less risky fixed income fund. But as one gets older and closer to retirement, they should shift the ratio from equity funds to fixed income funds. By the time an individual gets to age 55, it would be prudent to reverse that ratio to have 70% in the fixed income fund and only 30% in the stock index funds. As one nears retirement the maximum and minimum percentage limits on the various investment funds will be altered to minimize an individual's risk. Individual stocks would not be an option, only allocations within a few index funds. This provision of required diversification should be included to ensure the safety and security of individual accounts. This safeguard will allow for the greatest rate of return while simultaneously alleviating volatility risks.

My second recommendation concerns the way these accounts are administered at the time of retirement. As I've said earlier, Social Security was designed as an insurance policy against a "poverty ridden old age." With personal accounts, we can ensure that every retiree is receiving payments equal to, at a bare minimum, the poverty level. When an individual opts in to the system of personal accounts, they will be contributing less to the general Social Security fund and therefore will have a lower defined benefit than someone who has decided not to participate. Personal account participants should be required to purchase, at retirement, a lifetime annu-

ity that when combined with their defined Social Security benefit will equal at a minimum, the poverty level. By requiring a portion of the personal account to be so invested in a lifetime annuity, all retirees will have a requisite defined benefit for a lifetime. This is a necessary protection, not only for the individual, but also for society.

My third recommendation will ensure that this personal retirement fund is used solely for retirement. Individuals must be prohibited from making withdrawals from their personal retirement accounts for any reason other than retirement. This would preclude any borrowing against the fund or using funds for unanticipated life events, either good or bad. These funds are intended for retirement, not for healthcare, not for college funds, not to pay for mortgages. The fund must be reserved and protected for retirement.

Finally, I would also recommend an optional pretax contribution to the individual accounts for any person earning less than a certain multiple of the poverty level. Most middle to upper class families have the option of investing in 401k type plans, Thrift Savings Plans or IRA's to save money towards their retirement. But low income families and those Americans working for hourly wages often do not have a chance to save and invest in these personal retirement accounts. We should give them an option to contribute pretax dollars, through payroll deductions, on top of the individual accounts we create with this Social Security reform. We are trying to foster an ownership society, a society where people are encouraged to save for their future. Under this system, tens of millions of Americans who are not now saving for retirement will have the option to do so under the enactment of a retirement security measure.

There is a great silent majority in America that consists of future generations of retirees. It is those silent generations, many of whom are still too young to vote or not yet currently engaged in the political process, that are depending upon this Congress to make the difficult decisions. If we do not fix Social Security now, they will eventually look to us wondering why we did not do everything in our power to ensure a fair retirement system. Those who are speaking with the loudest voices in opposition to substantive Social Security reform do not represent the people in Texas' 11th Congressional District or a majority of the population. And they certainly do not represent our children and grandchildren's generation. This debate involves all Americans including those who cannot yet speak for themselves. We have the ability to leave a better system for them than the one we have inherited: A Social Security system that is sustainable and provides true retirement security for all Americans.

I thank the Committee for its time and I look forward to working with you in the weeks and months ahead to find a working solution to put the Security back in Social Security.

Chairman MCCRERY. Thank you. We have four Members who are waiting to testify here at the table. I am tempted to go in order of seniority. However, if any of you has a plane that you need to catch or a pill that you need to take, raise your hand. Otherwise, I am just going to go in order of seniority. Okay. In that case, we will hear from the esteemed Ranking Member of the House Budget Committee, a gentleman who has worked on fiscal issues for a long, long time, John Spratt.

STATEMENT OF THE HONORABLE JOHN M. SPRATT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. SPRATT. Mr. Chairman, I hope you won't mind if I look at this chart. Mr. Chairman, thank you for this opportunity to testify.

Chairman MCCRERY. Yes, sir. Thank you for coming.

Mr. SPRATT. Let me see if I can pull this over here. I can't. To understand the position that we take on Social Security, you need to put Social Security into the broader context of the budget. At the close of the Clinton Administration through the start of the Bush administration, the budget was in the black, and surplus by \$5.6

trillion, projected surplus over the next 10 years. Today, over that same 10-year time span, the budget is deep in deficit, in the red by \$3.8 trillion. This simple table that I have put up here as the first chart is one way to score the Bush administration's budget over the last 5 years. What this chart shows is that the debt ceiling has been raised three times and is due a second increase, three times in 5 years, 4 years in order to accommodate the budgets of the Bush administration, the budgets that the Congress has passed. As a result, if you include the \$781 billion included in the concurrent budget resolution just passed by the House, the total amount of debt increase is \$3.15 trillion, four times over 5 years for \$3.15 trillion, a spike of \$3 trillion in debt, that is the basic point.

[The information follows:]

Republicans Increase the Debt Limit by \$2.2 Trillion

Debt Limit Increases, Billions of Dollars

June 2002	\$450
May 2003	\$984
November 2004	\$800
Total Increases	\$2.234

Prepared by the House Budget Committee, 11/10/04

What this chart shows is more debt every year. It doesn't really spell that out, but I am afraid that is in the cards, unless we have a major budget plan that reverses the fiscal policy and the course that we are on now. Someday, surely, a day of reckoning awaits us. One of the problems with the Bush Administration is that they are taking the same fiscal philosophy and the same permissive attitude toward debt and carrying it over Social Security. The President's so-called reforms would require the Treasurer to borrow \$4.9 trillion between 2009 and 2028. That debt would be stacked on top of the enormous debt already mounting up in the budget.

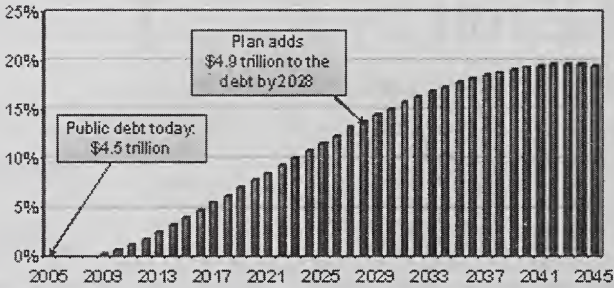
This next chart shows the debt that would have to be incurred in order to finance the transition. Now, the Bush administration said this is transitional debt; this is temporary debt; this debt will be paid back in time. This solution would increase debt as a percentage of Gross Domestic Product for at least 60 years before any

pay down began. We met yesterday with former Secretary Robert Rubin, and he told us he had been around financial markets all of his life. He knew of no financial markets with time horizons so long or so lenient as to give credence to any borrower who was promising to pay back that didn't start for 60 years. This is the first leg of the Bush administration's proposal, and necessarily borrowing \$4.9 trillion over the next 10 years, and it is one major reason that we consider the proposal a non-starter and call for privatization to be taken off the table so we can have a discussion about other aspects of the problem.

[The information follows:]

President's Social Security Plan Increases Borrowing for Decades

President's Plan: Private Accounts and Middle-Class Benefit Cuts
(Increase in Publicly Held Debt as Percent of GDP)



After all, Mr. Chairman, our objective is to make Social Security solvent. By diverting 4 percentage points off a third of all payroll taxes away from the Social Security Trust Fund and into private accounts, the gap between revenues and outlays is only made wider and worse. To achieve solvency, the Bush Administration does have a plan. It wasn't brought forth immediately, but it was buried in the detail of their proposal that was given to others as background briefings, and it was part of model number two as proposed by the President's Commission.

What the President proposed is to recalculate the initial benefit that is payable to prospective retirees by indexing the pinpoints in the basic benefit formula to price inflation instead of wage growth. Now, wages tend to grow by 1.1 percent more than prices, and over time, this difference becomes highly significant. By the 70th year, if this type of indexation is chosen, price indexation over wage indexation, the replacement ratio will be cut in half, from about 42 percent for the average beneficiary to about 22 percent. By the

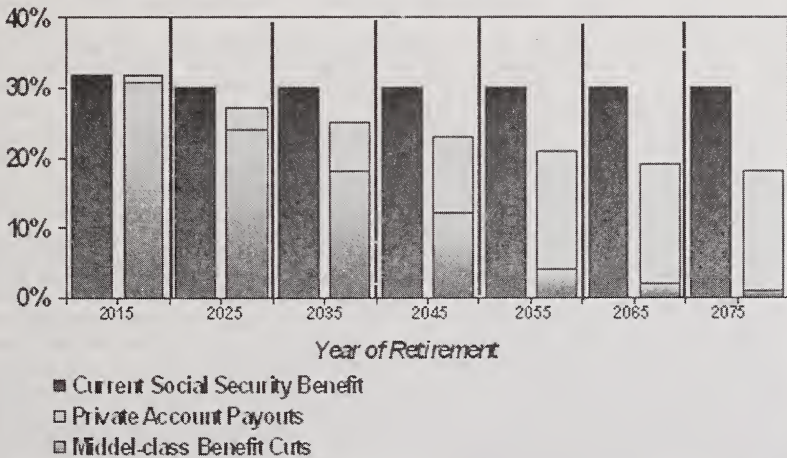
70th year, that effect would be significant; it would reduce the benefit for the average beneficiary by about 50 percent.

So, when people got past the private accounts idea and when they began to ask about other parts of the President's proposal and saw how this change affects the traditional benefits, their prospective benefits; the response was overwhelmingly negative. Therefore, the President came forth with another idea, a modification of the original idea, progressive re-indexation or sliding scale indexation. The next chart I have takes into account that particular approach proposal and shows what would happen to an average beneficiary retiring at age 65 with an earnings basis of 59,000. It assumes a rate of return on the private portfolio, which is the CBO's risk-adjusted rate of return. As you can see, the resulting benefit is well below the scheduled benefit payable under current law, and the traditional Social Security benefit, that little tip at the very bottom on the last bar, is all that is left of the traditional Social Security benefit; it is practically at the vanishing point.

[The information follows:]

President Proposes Steep Benefit Cuts

Estimated first-year benefits and account payouts for worker earning \$59,000 a year, retiring at age 65, expressed as percentage of pre-retirement earnings



Prepared by the Democratic Staff of the House Budget Committee

5/3/05

So, there are two things that are made clear by this poster. First of all, partial privatization by the 70th year amounts to almost total privatization. The basic benefit, traditional benefit, provided by Social Security, is almost eradicated. It has also been implied, broadly speaking, that the purpose of privatization would be to reap the greater returns in the equity market and, therefore, have benefits that are at least equal to or better than the existing program, which depends upon returns in the bond market, which are low, but this analysis doesn't support that outcome at all. So, Mr. Chairman, we recognize that the challenge facing Social Security is real. We agree that the sooner we act, the better, but we also

believe that Social Security benefits are vital, vital to millions of Americans. More than that, they are irreplaceable. There is no private plan likely to yield the same, provide the same benefits for the survivors, for the disabled, and for retirees.

The plan before us would cut these significantly. So, we fervently believe that we can and must do better. We are willing to work with you to that end, but we honestly believe that these two legs of the Bush proposal, first of all, the notion that we would borrow \$5 trillion over a 20-year period of time in order to finance a transition, and second that we would re-index the basic benefit need to be seriously given serious scrutiny and need to be laid off the table so we can find if there aren't other benefits to achieve the same purpose without the same results. Thank you for this opportunity to testify.

[The prepared statement of Mr. Spratt follows:]

Statement of The Honorable John M. Spratt, Jr., a Representative in Congress from the State of South Carolina

1. At the close of the Clinton Administration and the start of the Bush Administration, the budget was in the black, in surplus by \$5.6 trillion over the next 10 years. Today, over that same 10 year span, the budget is deep in deficit; in the red by \$3.8 trillion.
2. Here's one way to sum up or score the Bush Administration's budget over the last five years.
 - a. What this chart shows is how much the debt ceiling, our legal borrowing limit, has been raised each year in order to accommodate the Bush Administration's budgets.
 - b. What this chart depicts is a \$3 trillion spike in the national debt over five years. Our problem with the Bush Administration is that they are taking this same fiscal philosophy, this same indifference toward debt, and carrying it over to Social Security.
3. The President's so-called reforms would require the Treasury to borrow \$4.9 trillion between 2009 and 2028; and that would come on the top of the enormous debt already mounting up in the rest of the budget.
4. The Bush Administration says that this debt will be temporary or transitional, but their solution would increase debt held by the public as a percent of GDP for at least 60 years before any pay-down began. Yesterday, we met with former Secretary Rubin, and he told us there are no financial markets with time horizons so long or so lenient as to give credence to any borrower promising a payback that starts sixty years later.
5. This is the first leg of the Bush Administration's proposal, borrowing \$4.9 trillion over the next 20 years, and one major reason we consider the proposal a non-starter, and call for privatization to be taken off the table.

Our objective, after all, is to make Social Security solvent, and by diverting four percentage points off the FICA, a third of all payroll taxes, away from the Social Security Trust Fund and into private accounts, the gap between revenues and outlays is only made wider and worse.

To achieve solvency, the Bush Administration has proposed to re-calculate the initial benefit payable to prospective retirees, by indexing the bend points to price inflation instead of wage growth. Wages tend to grow about 1.1% more than prices; and over time, this difference become significant. By the 70th year, the replacement ratio is cut by half. When people got past private accounts, and began to ask about other aspects of President Bush's proposal, and saw how this change affects traditional benefits, the response was overwhelmingly negative. So, the President has come forth with another idea; progressive re-indexation.

But this next chart shows what happens as powers converge on traditional Social Security benefits. One factor is progressive indexation. The other is the "clawback," the obligation to repay, with interest at the real bond rate, all that is diverted from one's payroll taxes into Social Security. This chart is based on a worker retiring at age 65, having an earnings base of \$59,000. It assumes a rate of return equal to the real rate of return on government bonds. As you can see, the resulting benefit is well below the standard benefit, payable under current law, and the traditional Social Security benefit is almost at the vanishing point.

Mr. Chairman, we recognize the challenge facing Social Security, and agree that the sooner we act, the better. But, we also believe that Social Security benefits are not only vital to millions of Americans, but irreplaceable, and survivor benefits, disability benefits, and retirement benefits would be cut significantly by this plan. We fervently believe that we can and must do better.

Chairman MCCRERY. Thank you, Mr. Spratt. Next, the Honorable Charles Gonzalez, another colleague from Texas, who is going to share his thoughts with us. Mr. Gonzalez?

STATEMENT OF THE HONORABLE CHARLES A. GONZALEZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. GONZALEZ. Thank you very much, Mr. Chairman, and, Ranking Member Levin, for this opportunity. I know everybody's tired. It is getting late in the day, and I will attempt to be brief. I would ask that my written statement be submitted for the record in its entirety, and then I will just summarize pretty much and get through this. First of all, today there are 2.3 million Hispanics that receive Social Security benefits. Obviously, any plan that impacts the basic structure of this program is going to have a greater impact on a certain segment of this Social Security population. So, let me get into specifics.

While you can say for the general Social Security recipient, 65 percent of that population relies for one-half of their income on that Social Security check, but for Latinos, it is 75 percent. In the general Social Security recipient population, 20 percent relies on that monthly check for 100 percent of their income. For Latinos, it is 38 percent, nearly twice of that the general population. Disability rates, higher in the Latino community. In the general population, it is 11.9 percent; in Latinos, it is nearly 17 percent.

So, you say, well, that is present; where is all this going? Why is it so important to Latino communities? Social Security is also of particular importance, though, because more often than not this particular demographic group, the Latinos, occupy jobs that do not offer pension coverage, have high turnover, leading to periods of unemployment, have higher disability rates because of the type of work that we do and live paycheck to paycheck, making it nearly impossible to save for retirement. In fact, 81 percent of Hispanic seniors have no pension benefits, and 72 percent of Hispanics have no savings for retirement. So, you can imagine the importance of a Social Security system in its present form solvent there to provide these particular benefits for this huge, huge population. When I say huge, I will get into some other specifics.

First of all, in the next 30 years, nearly half of the population in the United States, the increase will take place in California, Florida, and Texas, which have huge Latino populations. So, are the demographics changing? How about the work force? Will things change in our lives because of education and great opportunities? I read from an article that came out on the 3rd of May, Hispanics wages not keeping up. Led by immigrants, employment among Hispanics who filled 40 percent of new jobs created last year is rising faster than employment among non-Hispanics, but salaries for Hispanics have been dropping steadily since 2002 as pay for their non-Hispanic counterparts has essentially held steady.

Hispanic job gains were driven by immigrants who entered in this country between 2002 through 2004. The employment of this group increased by 914,000 in 2004 and accounted for more than one-third of the total increase in employment in the United States economy last year; 81 percent of new jobs for foreign-born Hispanics and 76 percent of new jobs for native-born Hispanics were in occupations requiring minimal formal education. In contrast, 64 percent of new jobs for native-born white workers were in occupations requiring a college degree or more. We know what that equates to, pension, savings, and health insurance, all of it that this vast population, the Latino population is not going to be a beneficiary now or in the foreseeable future. That is a tragedy in and of itself which needs to be addressed, but that is the reality that this country faces.

I do want to leave with one thought. I know that my colleague, Congressman Conaway, was telling you about the different variables, the volatility of the stock market. For all those reasons, you can't build that into this particular system, which will destabilize it. I think, as John Spratt eloquently pointed out, as he always does, it will destroy the system at the end if you have this privatization scheme. I believe that Social Security is a reflection of our society's values and understanding that we are a community that ensures our elderly and disabled citizens do not live in destitute poverty. Social Security, therefore, reflects the wealth we share collectively as a nation, not to some of what individuals accumulate individually. I agree with the President; I like the thought of an ownership society, but an ownership society that shares a common destiny and understands that we are all in this together, and that the health and well-being of our citizens will impact the health and well-being of our individual existence. With that, I thank the Chairman and the Ranking Member.

[The prepared statement of Mr. Gonzalez follows:]

Statement of The Honorable Charles A. Gonzalez, a Representative in Congress from the State of Texas

Chairman McCrery, Ranking Member Levin, members of the subcommittee, thank you for the invitation and opportunity to testify today.

I believe that Social Security is a reflection of our society's values and understanding that we are a community that ensures our elderly and disabled citizens do not live in destitute poverty. Social Security therefore reflects the wealth we share collectively as a nation, not the sum of what individuals accumulate.

Millions of Hispanic Americans, including the Hispanic constituents who make up a majority of my congressional district, pay into Social Security all of their working lives, and as a result, Social Security has kept millions of Latinos out of poverty.

Today, 2.3 million Hispanics receive Social Security benefits and 38% of elderly Latinos in this country rely on Social Security for their entire retirement income, and without this program, the current number of Hispanics living in poverty would more than double from today's 19% to an incredible 55%.

Social Security is also of particular importance to the Latino community because more often than other demographics, they occupy jobs that do not offer pension coverage, have high turnover leading to periods of unemployment, have higher disability rates, and tend to live paycheck to paycheck making it nearly impossible to save for retirement.

In fact, 81% of Hispanic seniors have no pension benefits and 72% of Hispanics have no savings for retirement. That is why today, 41% of Hispanics rely on Social Security for all of their retirement income and 75% of Hispanics rely on Social Security for a majority of their income

As you can see, because it is not a simple adjustment to the program that will guarantee its solvency and secure the safety net, the effects of privatization on social security is of particular importance to the nation's Hispanic population.

On top of that there are other questions for which we need answers—How much control will the taxpayer have over their own private account? Will the taxpayer have the choice of financial manager and investment types? How much will financial managers be allowed to charge for managing these accounts? What contingency plan is there should a catastrophic market loss deplete the taxpayer's private account? Will taxpayers that choose NOT to direct any portion of their payroll taxes into a private account suffer a reduction of benefits? Are Survivor and Disabled benefits truly protected under the privatization proposal?

I don't have the answers to all of those questions yet, but what I do know is that by privatizing Social Security and allowing the stock market to dictate the size of retirees' checks, we are destroying the ability for Latinos to pay into a reliable retirement system that will guarantee them a steady income for retirement.

I want to touch on one other point and that is that I have heard the president and other advocates of privatization suggest that the Social Security Trust Fund is nothing more than a pile of "IOUs" that will somehow be discarded or left unpaid because they hold no real value.

The truth is that when we pay taxes or even when we put money in a bank, it doesn't sit around in piles in a vault. It becomes a debt instrument through loans, bonds, and notes, which are all in a sense "IOUs."

To that extent, the "IOUs" in the Trust Fund are no different from a savings bond or any other bond sold by a government entity to fund services and projects. When a city or county issues bonds to pay for a school, that is an "IOU" owed to those who buy the bonds, and if the city or county default there are serious consequences. The same is true for the federal government which has not only borrowed the Social Security Trust Fund by way of bonds, but has also borrowed from foreign countries, companies, and citizens by way of savings bonds and treasury notes.

All of those "IOUs" have a real value, and yes, I fully expect the U.S. Government to pay its debts, to include honoring the Social Security Trust Fund bonds.

I hope that no one, including anyone in the Administration, is suggesting that our government can default on the monies owed to the Trust Fund, while advocating for a privatization plan that may well require \$5 trillion in new debt to finance the privatization of Social Security. That is simply a bad idea.

Chairman McCreery, Ranking Member Levin, members of the subcommittee, thank you again for the opportunity to testify today.

Chairman MCCREERY. Thank you, Mr. Gonzalez. Ms. Wasserman Schultz has requested that she go next. If no one objects—she has got to go somewhere, she says. With no objection, then, Ms. Wasserman Schultz, you may proceed.

STATEMENT OF THE HONORABLE DEBBIE WASSERMAN SCHULTZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman, and Ranking Member, for accommodating me. Thank you for the invitation to testify in front of you this afternoon. There are those who would have you believe that Social Security is in crisis and at its breaking point, that the whole thing—I have heard the President use the term—is going bankrupt. Social Security is clearly not about to disappear. We must address its funding problems, but we need to be responsible and take the time to do it right, without undermining the entire system or pulling the rug or safety net out from under our current generation and generations to come, including families, survivors, and children.

Social Security, it is clear, will continue to pay full benefits for the next 40 to 50 years, at which point the trust fund will be exhausted, and we will have a situation where we will pay out more

in benefits than we collect in revenue. After that, Social Security will continue to exist and can afford to pay benefits at 70 to 80 percent of their existing levels because workers will continue to pay into the system. Social Security is and has always been an insurance program with a guaranteed return, not an investment gamble subject to the whims of the stock market, which is what has been proposed by the President. It is there to provide a guaranteed level of security for retirees, for widows, for disabled workers and children. Privatization will do nothing to solve Social Security's funding problem. In fact, it will make it worse. It will cost trillions of dollars, is fiscally irresponsible, and according to the 2004 Economic Report of the President, it will explode the national debt to unsustainable levels. It will cost at least \$5 trillion to implement in the first 20 years alone.

The cost of privatization will saddle our children and grandchildren with debt. Today, every man, woman, and child owes \$26,000 to pay down the national debt, essentially a birth tax which I and many of my colleagues find unconscionable. Just imagine how high the birth tax would be if \$5 trillion of additional debt is added to it. The Center on Budget and Policy Priorities recently released a study, the results of which I would like to share with you today. They found that Social Security lifts 1 million children across the country above the poverty line. Social Security does more to reduce child poverty than any other program. The Center found that Social Security reduced the child poverty gap by 21 percent in 2002. That is slightly more than the reduction achieved by the earned income tax credit, which is 20 percent, or food stamps, which is 15 percent. In Louisiana, Mr. Chairman, Social Security lifted 29,000 children out of poverty during 2002. In Michigan, Mr. Levin, Social Security kept 34,000 children out of poverty. In California, 141,000 children. In Texas, 81,000 children. In Pennsylvania and Ohio, 36,000 and 38,000 children were lifted out of poverty due to Social Security respectively. In my home State of Florida, Social Security lifted approximately 50,000 children out of poverty.

Social Security's own records show that, at the end of 2003, 3.1 million children qualified as survivors or dependents of deceased, disabled or retired workers, but has a combined effect on family's resources greater than what is indicated simply by the children who collect Social Security benefits directly. A substantial number of children receive no payments but still benefit from the fact that family Members receive those benefits. Children, approximately 5.3 million of them, lived in families that received Social Security income in 2002. Mr. Chairman, I am 38 years old, and I have friends and colleagues who believe that Social Security will not be there for them because the President has created what has amounted to a crisis mentality of mythological proportions.

In 2041, which is the most likely year in which we will actually begin to have a problem, I will be 74 years old, 10 years later in 2051, which is the more likely, given the economic projections, year in which we will begin to have a problem, I will be 84 years old, long past retirement age, long past when my friends and colleagues will be at retirement age. I think we need to kind of ratchet down the rhetoric. We need to make sure that people truly understand

what the facts are. When it comes to Social Security and its difficulties, we need to take the time, be responsible, and make the changes together that need to be made. We are willing to come to the table, but we are not willing to pull the rug out from under this generation or the generations to come. As a Member of that generation, I urge you to come to the table, sit with us, take privatization off the table so that we can make the compromises necessary to fix it. Thank you.

[The prepared statement of Ms. Wasserman Schultz follows:]

Statement of The Honorable Debbie Wasserman Schultz, a Representative in Congress from the State of Florida

Thank you Chairman McCrery and Ranking Member Levin for inviting me to testify before you and the Subcommittee on this important issue today. It's an honor to be here among such an esteemed group of colleagues, who have—and continue—to lead the fight to protect Social Security.

There are those who would have you believe that the Social Security system is in crisis and at its breaking point—that the whole thing is about to go bankrupt. But Social Security is not about to disappear. We *must* address the funding problems, but we have time to do it right and without undermining the entire system or pulling the rug out from under seniors, families, survivors and children.

Social Security will continue to pay full benefits for the next 40–50 years, at which point the Trust Fund will be exhausted. After that, Social Security will continue to exist and can afford to pay benefits at 70–80% of their existing levels because workers will continue to pay into the system.

Social Security is and has always been an insurance program with a guaranteed return, not an investment gamble subject to the whims of the stock market. It is there to provide a guaranteed level of security for retirees, widows, disabled workers and children. Privatization does nothing to solve Social Security's funding problem. In fact, it makes it worse. Privatization costs trillions of dollars and is fiscally irresponsible. According to the *2004 Economic Report of the President*, privatization explodes the national debt to unsustainable levels. Privatization costs at least \$5 trillion dollars to implement in the first 20 years alone.

The administration intends to cover these costs by taking even more money out of the Social Security Trust Fund and borrowing heavily from foreign countries like China—and it's the taxpayers, all of us, who are on the hook to pay them back. The plan is so expensive that it threatens to bankrupt the Trust Fund in only 11 years, nearly three decades earlier than current projections.

The cost of privatization saddles our children and grandchildren with debt. Today, every man, woman and child owes \$26,000 to pay down the national debt—a “**birth tax**” if you will, which I find unconscionable. Just imagine how high the birth tax will be if \$5 trillion dollars of additional debt are added into the equation to pay for only the first 20 years of the President's proposed privatization scheme.

But on top of that debt—privatization threatens the families, survivors and children who rely on Social Security to keep them out of extreme poverty and destitution. Across this country, one-third of all Social Security's beneficiaries are *not* retirees. Social Security offers a set of insurance protections for workers and their families, providing protection against poverty in the event of death, disability or old age, the likes of which are simply not available in our private markets.

The Center on Budget and Policy Priorities (or CBPP) recently released a study, the results of which I would like to share with you today. They found that Social Security lifts 1 million children across this country above the poverty line. Social Security does more to reduce child poverty than any other program. CBPP found that Social Security reduced the child poverty gap by 21% in 2002—that is slightly more than the reduction achieved by the Earned Income Tax Credit (20%) or food stamps (15%).

- In Louisiana, Social Security lifted 29,000 children out of poverty during 2002.
- In Michigan, Social Security kept 34,000 children out of poverty.
- In California—141,000 children.
- In Texas—81,000.
- In Pennsylvania and Ohio—36,000 and 38,000 children respectively.

And in my home state of Florida, Social Security lifted approximately 50,000 children out of poverty.

Social Security's own records show that at the end of 2003, 3.1 million children qualified as survivors or dependents of deceased, disabled or retired workers. But Social Security has a combined effect on families' resources greater than what is indicated by looking at "child payments" alone. In other words, a substantial number of children receive no payments but still benefit from the program because a member of their family receives benefits. CBPP used Census Bureau data to determine that approximately 5.3 million children lived in families that received income from Social Security in 2002.

With so much at stake Democrats believe that this is the time for public education and debate about Social Security's future, not the time to rush into a risky and untested plan. **To Democrats, the greatest challenge is that Social Security may face significant benefit cuts in the future.** But instead of seeing future benefit cuts as a problem to avoid, some of our Republican colleagues see cuts as the *solution* to the current difficulties.

Social Security means more than retirement. It provides disability insurance that young families need. For a 27-year-old worker with a spouse and two children, Social Security provides the equivalent of a \$353,000 dollar disability insurance policy. Most young people cannot obtain or afford similar coverage in the private markets. Suppose—god forbid—a young parent dies suddenly. Social Security provides for the children who are left behind. For a young parent, the survivors' benefits are equivalent to a \$403,000 dollar insurance policy.

You've heard the president say that private accounts would be voluntary. That may be the case, but the benefit cuts would apply to everyone, not just those who signed up for private accounts. In fact, they are the **largest middle class benefit cut in Social Security's history.**

Democrats are ready to work with Republicans on a solution to strengthen the system, but we cannot support any plan that involves massive cuts in guaranteed benefits or huge increases in our national debt. If the President will drop his demand to include privatization, then we can discuss bipartisan solutions that *really* strengthen Social Security.

President Bush, says that, and I quote, "leadership means not passing problems on to future generations and future presidents," but this plan passes trillions of dollars of debt onto our children and grandchildren. I urge you—my colleagues—to consider this advice and do what's best for the American people, for our children and for our future.

Thank you Chairman McCrery, Ranking Member Levin and Members of the Subcommittee.

Chairman MCCRERY. Thank you. Mr. Cleaver, since you have been patiently waiting for some time, having come back twice now, I am going to recognize you, the gentleman from Missouri. Mr. Cleaver, thank you for coming and being so patient. You may proceed.

STATEMENT OF THE HONORABLE EMANUEL CLEAVER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. CLEAVER. Thank you. I wanted my colleague, because she is older, to have the chance to speak before me. Thank you, Mr. Chairman, and, Ranking Member Levin, for convening this important hearing on Social Security. I really appreciate the opportunity to provide testimony. I represent the Fifth Congressional District of Missouri. In my district, we have 103,193 total Social Security beneficiaries. So, the future of Social Security is very important to me and my constituents. Whenever I return home, people want talk to me about Social Security, and their message is almost always the same: Don't privatize Social Security.

This past March, I held an amazing townhall meeting at Penn Valley Community College. We had more than 500 of my constituents in attendance. The vast majority of attendees told me that they came to express their strong opposition to privatizing Social

Security. Some told me they worry that privatizing Social Security would endanger the benefits of current retirees and people with disabilities and cut benefits for future generations. Others told me that they worry that privatizing Social Security will saddle their grandchildren with a massive debt they cannot afford. I heard time and time again that everyone knows Social Security needs reform, but this is not the way to do it.

Social Security is an American success story that has helped millions of Americans enjoy a secure retirement for more than 70 years. It is the single largest source of retirement income in this country. For over two-thirds of seniors, Social Security provides the majority of their income, while four in ten widows rely on Social Security to provide 90 percent or more of their income. Without Social Security, nearly half of seniors would live in poverty. Social Security has been so successful because its benefits are guaranteed for as long as the worker or his or her spouse lives. Social Security is predictable, steady, and has never failed to pay promised benefits.

Whenever I think about the importance of Social Security, I don't have to think very far from my own life. My great grandfather, the Reverend Albert Cleaver, lived to the ripe old age of 102. He was married for the final time at age 87. He was, by any standard—except his sex appeal—considered poor, but because he received Social Security, he was able to live out his last years comfortably. My great grandfather died while I was in college, but if he hadn't had Social Security, he would have lived in abject poverty.

The suggestion that African-Americans should support privatization because they don't live as long as other groups is both laughable and insulting. It would be like one of our spouses saying, I am going to be nice to you sooner because you are going to die soon. I think that it is a horrible way for us to talk about Social Security. I am not sure who advised the President to bring that into the conversation, but they should be put out of Washington. The worst part of that is if we are going to talk about a group of Americans dying sooner, we should talk about trying to come up with cures to sickle cell sooner, or so many other diseases that wreak havoc among African-Americans. Instead, we were told, since you are going to die, you should support Social Security reform the way we want it with privatization.

The promise of a guaranteed benefit is especially important for African-Americans. Social Security is the only source of retirement income for 40 percent of African-American seniors. The SSA estimates that the poverty rate for elderly blacks would more than double, from 24 percent to 65 percent, without Social Security. The fact of the matter is that proposals to privatize Social Security put that benefit in danger. By diverting trillions of dollars in revenue away from Social Security, privatization plans require drastic upfront cuts to Social Security, reducing the guaranteed amount. Now, to those of us sitting at this table making 6 figure incomes, this may not be a big deal, but to seniors like my great grandpa, 40 percent is the difference between a comfortable, sustainable retirement, and living in painful and unpalatable poverty.

I know the argument that some would have, which is—and we have all heard—that the proponents of privatization say that pri-

vate accounts would make up for any benefit cuts that may be necessary. From what I have seen of these proposals, benefit cuts will be necessary. The argument simply isn't true. The stock market is by no means a safe investment. A study by AARP demonstrated that about 20 percent of older Americans who lost money when the stock market declined from 2002 to 2004 have subsequently postponed their retirement dates. Clearly, the daily fluctuations in the market make it inherently unreliable.

On the Missouri River, I hate to say this, but during the term I served as Mayor for 8 years, the State and our city made it possible to bring in river boats. We have three on the Missouri River now, and they attract all sorts of people looking to hit it big. You don't go down to the boats and expect to come back with your retirement income from the winnings. That is exactly what proponents of private accounts are asking us to do. Even if you do beat the odds and come away from the stock market a winner, you still won't have enough accumulated earnings to make up for the benefit cuts, and that is because, for every dollar a retiree has in a private account at retirement, about 70 cents will be deducted.

Let me conclude, Mr. Chairman, I appreciate your patience. This is a true story—1 day the wind and the sun had an argument, and the argument was over which one could cause a man to take off his coat. The wind tried it first, and he blew and blew, and the more he blew, the harder the man pulled his coat against him. Finally, he gave up and so it was time for the sun. So, the sun simply poured out its warmth and more warmth, and then finally, the man took off his coat. The sun won. Now, what is the moral of that story? Well, people cannot be won over by the wild and wicked winds of whim, but rather the warmth of welcoming sunlight brought about by security and guarantees.

[The prepared statement of Mr. Cleaver follows:]

**Statement of The Honorable Emanuel Cleaver, a Representative in
Congress from the State of Missouri**

Thank you Mr. Chairman and Ranking Member Levin for convening this important hearing on Social Security. I appreciate the opportunity to testify before the Subcommittee.

I represent the 5th District of the great state of Missouri. In my district, we have 103,193 total Social Security beneficiaries, so the future of Social Security is one of the most important issues to my constituents. Whenever I return to the Fifth District, people want to talk to me about Social Security, and their message is almost always the same: don't privatize Social Security.

This past March, I held an amazing town hall meeting on Social Security that over 500 of my constituents attended. The vast majority of attendees told me that they came to express their strong opposition to privatizing Social Security. Some told me they worry that privatizing Social Security would endanger the benefits of current retirees and people with disabilities, and cut benefits for future generations. Others told me they worry that privatizing Social Security will saddle our grandchildren with a massive debt they cannot afford. And I heard time and time again that everyone knows Social Security needs reform, but this isn't the way to do it.

Social Security is an American success story that has helped millions of Americans enjoy a secure retirement for the past 70 years. It is the single largest source of retirement income in the country. For over $\frac{2}{3}$ of seniors, Social Security provides the majority of their income, while 4 in 10 widows rely on Social Security to provide 90% or more of their income. Without Social Security, nearly half of seniors would live in poverty.

Social Security has been so successful because its benefits are guaranteed for as long as the worker and his or her spouse lives. Social Security is predictable, steady, and has never failed to pay promised benefits.

Whenever I think about the importance of Social Security, I don't have to think far from my own life. My great grandfather, the Reverend Noah Albert Cleaver, lived to the ripe old age of 102. He was—by any standard—poor. But because he received Social Security, he was able to live out his last years comfortably. My great grandfather died while I was in college, but if he didn't have Social Security's guaranteed benefit, he would have, absolutely, lived out his last years in abject poverty.

The promise of a guaranteed benefit is especially important for African Americans. Social Security is the only source of retirement income for 40% of African American seniors, and the Social Security Administration estimates that the poverty rate for elderly blacks would more than double—from 24% to 65%—without Social Security. But the fact of the matter is that proposals to privatize Social Security put this guaranteed benefit in danger. By diverting trillions of dollars in revenue away from Social Security, privatization plans require drastic up-front cuts to Social Security, reducing the guaranteed amount received by seniors on fixed incomes by as much as 40%. Now, to those of us sitting at this table making six figure incomes, this may not be a big deal. But to seniors like my great-grandfather, 40% is the difference between a comfortable, sustainable retirement and living in poverty.

Now I know the argument that's coming now. We've all heard proponents of privatization say that private accounts will make up for any benefit cuts that may be necessary (and from what I've seen of these proposals—benefit cuts would be necessary.) But that argument simply isn't true.

The stock market is, by no means, a safe investment. A study by AARP demonstrated that about 20 percent of older Americans who lost money when the stock market declined from 2000 to 2002 have subsequently postponed their retirement dates. Clearly, the daily fluctuations in the market make it an inherently unreliable tool around which to plan one's retirement: it's tantamount to gambling. On the Missouri River we have a number of riverboats that attract all sorts of people looking to hit it big. You don't go down to the boats and expect to come back and retire off your winnings—but that's exactly what proponents of private accounts are asking us to do.

And even if you do beat the odds and come away from the stock market a winner, you still won't have enough accumulated earnings to make up for the benefit cuts. That's because, for every dollar a retiree has in their private account at retirement, about 70 cents will be deducted from their Social Security benefits.

It's clear to me privatizing Social Security is a losing proposition. Does Social Security face difficulties down the road? Yes. And we need to address them. But Social Security will be fully solvent for nearly 50 years, and even after that it will still be able to pay 80 percent of benefits. But right now, the real threat to Social Security is the threat of benefit cuts. My constituents have made their views clear: they do not support any plan that gambles seniors' benefits on the stock market or guts guaranteed benefits. I must vote with my constituents, and for these reasons, I cannot, in good conscience, support any plan to privatize Social Security.

Chairman MCCRERY. Thank you, Mr. Cleaver. Next, it is my distinct privilege to welcome to the Subcommittee Ms. Matsui, whose late husband dedicated much of his time and energy to this subject while he was a proud Member of the Committee on Ways and Means. So, welcome, Ms. Matsui. You may proceed.

STATEMENT OF THE HONORABLE DORIS MATSUI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. MATSUI. Thank you very much, Mr. Chairman and Ranking Member Levin, and I appreciate being here. I realized today that I had never been here to watch my husband, and that is something I regret. I am happy to be here today to have this opportunity to express my views on Social Security. Social Security is one of the most successful Federal initiatives ever created, and I welcome the opportunity Congress has to strengthen the program. As we work to ensure the long-term solvency of Social Security, we must find the right combination of changes, and we must be mindful of the

effects of the changes on current and future Social Security recipients.

The challenges facing Social Security are not so imminent that we must rush through the reforms. We have the time to get these fixes right. Were we to rush a quick fix or ill-conceived plan through Congress, we would be doing our constituents a grave disservice. However, I am hopeful that Congress can, in a thoughtful and bipartisan manner, work to address this issue for current retirees as well as for future generations. Unfortunately, not every reform option is on the table. The President has a single-minded focus of replacing Social Security with risky private accounts to the exclusion of all other possibilities, regardless of the long-term harm private accounts would do to a program every senior receives which was created as a security net as a last line of defense for all seniors against poverty.

The Nation has watched Enron collapse and pension bailouts, and Americans want reassurance that Social Security, their retirement safety net, is secure. Their instinct that the private account scheme would only add the risk of the stock market on top of the proposed benefit cuts is well-founded. Despite months of talking directly to the American people and trying to sell this plan, the majority of Americans are opposed to the President's proposal to replace Social Security with risky private accounts, and their objections are completely legitimate.

The President's proposed answer to Social Security's long-term shortfall is deep cuts in guaranteed benefits for the middle class. Most Americans, though, see benefit cuts as the problem, not the solution. These concerns are shared by most Americans, and they are not specific to one community or one segment of the population. Just as these concerns resonate with women, African-Americans, middle class, lower class, the Asian-American community is also worried about the long-term effects of the President's plan. Millions of Americans rely on Social Security to provide rock-solid guaranteed benefits and retirement.

Although so many in the Asian-American community enjoy a wide degree of prosperity, many more are low-wage earners who frequently have no savings or pension coverage. With 30 percent of Asian-American seniors relying on Social Security for all or part of their retirement income, compared to 70 percent of all seniors nationally, this assurance is even more important. Over one-quarter of the Asian-American community is under the age of 21; this is a very young community. I firmly believe that Social Security is a fundamental commitment between generations that reflects the values that we share, an emphasis on family, and an agreement among the entire community that survivors, the disabled and seniors should benefit from a shared assistance. By taking this path to change Social Security, we are adding almost \$5 trillion in additional debt on the backs of our children and our grandchildren.

I would not be honoring this fundamental commitment to my granddaughter or any other young person by supporting poor policy executed with fiscal irresponsibility. As I conclude my testimony, I would like to share just a moment with you a story about my husband and Social Security reform. As you know, Bob had built quite a legacy from his long and productive career in the House of Rep-

representatives, much of it here on the Committee on Ways and Means, in fact, in service to this Subcommittee. He believed, as do I, that Social Security as woven into the social and moral fabric of our country, that it reflects an unwritten and unspoken agreement that all of us are better off with it as a guarantee beneath our feet. As I said, Bob had quite a wealth of accomplishments in his 26 years of service to this country. With all his legislative accomplishments, there was only one piece of legislation hanging in his office: The 1983 bipartisan Social Security reform bill. I don't think many people were aware of that fact. Bob saw in that legislation the fundamental promise of Social Security and the importance of bipartisanship. As we consider a host of ideas about how to again reform Social Security, we should not stray so far as to forget those central ideas. I thank you very much.

[The prepared statement of Ms. Matsui follows:]

**Statement of The Honorable Doris Matsui, a Representative in Congress
from the State of California**

Mr. Chairman:

Thank you for this opportunity to express my views on Social Security reform before the Subcommittee.

Social Security is one of the most successful federal initiatives ever created and I welcome the opportunity Congress has to strengthen the program. As we work to ensure the long-term solvency of Social Security, we must find the right combination of changes. And we must be mindful of the effects of the changes on current and future Social Security recipients.

The challenges facing Social Security are not so imminent that we must rush through reforms. We have the time to get these fixes *right*. Were we to rush a quick fix or an ill-conceived partisan plan through Congress, we would be doing our constituents a grave disservice. However, I am hopeful that Congress can, in a thoughtful and bipartisan way, work to address this issue for current retirees as well as future generations.

Unfortunately, not every reform option is on the table. The president has a single-minded focus on replacing Social Security with risky private accounts, to the exclusion of all other possibilities—regardless of the long-term harm private accounts would do to a program every senior receives and which was created as a security net, as the last-line of defense for all seniors against poverty.

The nation has watched Enron collapse and pension bailouts and Americans want reassurance that Social Security—their retirement safety net—is secure. Their instinct that the private account scheme will only add the risk of the stock market on top of the proposed benefit cuts is well-founded.

Despite months of talking directly to the American people and trying to sell his plan, the majority of Americans are opposed to the President's proposal to replace Social Security with risky private accounts. And their objections are completely legitimate. The president's proposed answer to Social Security's long-term shortfall is deep cuts in guaranteed benefits for the middle class. Most Americans, though, see benefit cuts as the *problem, not the solution*.

These concerns are shared by most Americans. They are not specific to one community or one segment of the population. Just as these concerns resonate with women, African Americans, middle class, lower class, the Asian American community is also worried about the long-term effects of the president's plan.

Millions of Americans rely on Social Security to provide a rock-solid guaranteed benefit in retirement. And with 30 percent of Asian-American seniors relying on Social Security as their only source of retirement income, this assurance is even more important.

Over one quarter of the Asian-American community is under the age of 21; we are a very young community. I firmly believe that Social Security is a fundamental commitment between generations, a compact of shared risk in exchange for shared security. But by taking this path to change Social Security we are adding almost \$5 trillion in additional debt to the backs of our children and grandchildren. I would not be honoring this fundamental commitment to my granddaughter or any other young person by supporting poor policy executed with fiscal irresponsibility.

As I conclude my testimony, I would like to take a moment to share with you a story about my husband and Social Security reform. Bob has built quite a legacy from his long and productive career in the House of Representatives, much of it on Ways & Means in service to this Subcommittee. He believed, as do I, that Social Security has been woven into the social and moral fabric of our country—that it reflects an unwritten and unspoken agreement that all of us are better off with it as a guarantee beneath our feet.

As I said, Bob had quite a wealth of accomplishments in his twenty-five years of service to his country. But there was only one piece of legislation hanging in his office . . . the 1983 bi-partisan Social Security reform bill. I don't think many people were aware of that fact. Bob saw in that legislation the fundamental promise of Social Security and the importance of bipartisanship. As we consider a host of ideas about how to again reform Social Security, we should not stray so far as to forget those central ideals.

Chairman MCCRERY. Thank you, Ms. Matsui. Ms. Jackson-Lee, thank you for patiently waiting. Did you present written testimony?

STATEMENT OF THE HONORABLE SHEILA JACKSON-LEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Ms. JACKSON-LEE. No. I will submit it.

Chairman MCCRERY. That is fine. You may proceed as you wish for 5 minutes to summarize your testimony. Thank you.

Ms. JACKSON-LEE. I thank the Chairman and I thank the Ranking Member for particularly giving us the opportunity. I have heard, sitting here this afternoon, moving testimony and certainly that of Doris Matsui, in terms of the commitment of Bob Matsui to this issue. I guess the singular theme of which she offered was consideration in a bipartisan manner, being able to reflect the hopes and dreams of all Americans.

My district is dominated by senior citizens. I had the opportunity of visiting with about 800 of them in a townhall meeting. One, to make a presentation, but more importantly to listen to them. It is interesting that the overwhelming theme was the safety net factor that Social Security provided. As I listened to my colleague speak about his great grandfather, I simply want to add to his story that of my grandmother, was born in the 1800s and worked most of her life as a domestic. It was with the creation of Social Security in World War II by President Roosevelt, that my grandmother was allowed to live her life after retirement from working in the homes of many in a more dignified manner.

So, I simply say to my colleagues that as we look at Social Security, even as the President may push forward on privatization, can we not think of the hundreds of thousands and millions of Americans, some who have now since lost their lives through aging, of being able to survive because of that safety net? In this season of basketball, we might consider Social Security as a slam dunk. It has worked for more than 60 years. It has been solvent. In tribute to the 1983 reform and the bipartisan reform, it is now solvent until at least 2042 to 2043. In fact, as we have been informed, it is probably the strongest now in 2005 than it has ever been. Social Security provides for 47 million retirees, family Members of workers who died, and people with disabilities. About 30 percent of Social Security beneficiaries receive survivor disability benefits. Near-

ly two thirds of retirees count on Social Security for most of their retirement income. Social Security, as I said, is a safety net that keeps retirees out of poverty. Between 1960 and 2004, Social Security helped cut the poverty rate among seniors by more than two thirds, from 35 percent to 10 percent.

Social Security beneficiaries earn their benefits by paying into a system throughout their time at work. We must strengthen Social Security, but we must take time to get it right. Social Security is a sound system that can meet 100 percent of its obligations. Someone told me a story about the potential realities of privatization and giving authority to individuals to manage their own account. Ownership is a very fine dream. I wish for America homeownership throughout the Nation. When you talk about managing your own private savings account or privatization, you talk about the burden—of burdening individuals of responsibility of competing with the minds of Wall Street. Frankly, I believe that the best approach is to create that sure safe safety net that is there whenever someone needs it.

When I met and had a meeting with my senior citizens, they asked a question about the generational gap. In fact, some were concerned that their grandchildren were sitting at the table sort of pointedly saying, you have got the old system, we want the new system. That generational schism should not be. Frankly, right now grandparents are taking care of children, teenagers, and young adults, allowing them to go to college with their Social Security benefits. Again, it is a Social Security safety net.

Under privatization, the average worker would lose \$152,000 in guaranteed benefits. Guaranteed benefits would be cut by 40 percent even for workers who don't choose to have it privatized. For workers who do choose privatized accounts, the government would take back 70 cents in Social Security benefits for every one dollar in their accounts. That is on top of the 40-percent guaranteed benefit cut. The Bush privatization proposal creates a false depiction of Social Security's future and solvency, and threatens to replace Social Security with very risky private investment.

Let me close by simply saying that 60 percent of all Social Security beneficiaries 65 and over are women. As well, Social Security provides 90 percent or more of the total income for 44 percent of unmarried women 65 older, 66 percent of unmarried Hispanic women 65 and older, 74 percent of unmarried African American women 65 and older, and 35 percent of all unmarried men, 65 and older. Women are the dominant recipients.

With the income of women still not equal, I would say to my colleagues here today, let us be very careful when we begin to undermine the social safety net, or Social Security. I hope we can do this in a bipartisan way. I simply close by saying to you this: so many of us understand the story of the Good Samaritan, someone who refused to ignore someone broken and battered along life's highway and journey. I would ask that we look to that broken and battered person as those needing Social Security and the safety net. Let us not ignore them. Let us join in a bipartisan way to ignore the entreaty of privatization and grab hold of the slam dunk, and that is the safety net of Social Security for all Americans.

Chairman. MCCRERY. Thank you, Ms. Jackson-Lee.

[The prepared statement of Ms. Jackson-Lee follows:]

Statement of The Honorable Sheila Jackson-Lee, a Representative in Congress from the State of Texas

- Social Security provides a guaranteed income each year for more than 47 million retirees, family members of workers who died and people with disabilities. About 30 percent of Social Security beneficiaries receive survivor or disability benefits.
- Nearly two-thirds of retirees count on Social Security for most of their retirement incomes.
- Social Security is a safety net that keeps retirees out of poverty. Between 1960 and 2004, Social Security helped cut the poverty rate among seniors by more than two-thirds, from 35 percent to 10 percent.
- Social Security beneficiaries earn their benefits by paying into the system throughout their time at work.
- We must strengthen Social Security, but we must take the time to get it right. Social Security is a sound system that can meet 100 percent of its obligations until 2042 (some projections say 2052). After 2042, if no changes are made, funds from Social Security payroll taxes will be sufficient to finance nearly 70 percent of the payments to beneficiaries.
- Administrative costs for Social Security are less than 1 cent per dollar paid out in benefits. This is much lower than the average administrative costs of 12 to 14 percent for private insurers.

Privatization backers are trying to scare Americans into believing Social Security faces a crisis so they can sell privatization. But while Social Security does face problems that must be addressed, privatization will make the situation *worse*, not better.

In fact, under privatization proposals: guaranteed retirement benefits.

- Guaranteed benefits would be cut by 40 percent even for workers who don't choose to have a privatized account.
- For workers who do choose privatized accounts, the government will take back 70 cents in Social Security benefits for every \$1 in their accounts. That's on top of the 40 percent guaranteed benefit cut.
- The Bush privatization proposal creates a false depiction of Social Security's future solvency and threatens to replace Social Security with very risky private investment accounts.

In closing, the private accounts that would be created under this proposal are a premature and drastic way of addressing a problem that is predicted for 40 to 50 years into the future. Furthermore, the damage that will be caused for the millions of seniors whose benefits will be severely cut under this plan is not worth the speculation that is necessarily required with investments.

Chairman. MCCRERY. Last but not least, another gentleman from New York. Texas, I think gets the sweeps today for the number of Members testifying. Florida gets second. I think New York ties for third. Mr. Fossella, thank you very much for joining us. You may proceed as you wish. If you have written testimony, you may submit it. If not, it will be transcribed and included in the record.

STATEMENT OF THE HONORABLE VITO FOSSELLA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. FOSSELLA. Thank you, Mr. Chairman, thank you and the Ranking Member and all my colleagues here for holding, I think, one of the most important hearings in the country. I also want to commend Chairman Thomas as Chairman of the Committee on Ways and Means for his leadership in trying to develop a plan to

guarantee the long-term solvency of Social Security. The President has dedicated the past 6 months to educating the American people on the structural problems of Social Security and the need to improve the system so that the promise of this Federal covenant is renewed in this century.

Speaking of great grandfathers, my great grandfather, Congressman James O'Leary represented Staten Island in the thirties. He voted to create Social Security. Today I am prepared to carry on his work by working with Democrats and Republicans to find common ground that will allow our generation to renew the sacred covenant. Since this debate began, I have held a series of meetings in my office and elsewhere, with residents, civic groups, businesspeople, labor unions to solicit their opinions on Social Security and gain feedback on ways we can improve the system. While the opinions I have heard span a wide range, there has been one consistent message: Social Security faces a long-term funding crisis that cannot be ignored.

The politicization of this issue frankly has been disappointing to me. While I can appreciate legitimate criticism of different proposals, I find it untenable when criticism is coupled with obstruction with no ideas at all. Even today, James Hoffa, the President of the Teamsters Union who opposed President Bush last year remarked, "Social Security is a major problem in this country. We have to make sure that it is preserved for those that come after us." I applaud him for that statement because I think it is true.

I believe we can find a bipartisan solution to strengthening Social Security if politics is cast aside and the best interest of the American people take priority. I enter this debate with certain fundamental principles: I will not support any real reduction in benefits for today's seniors and baby boomers, and I also do not believe massive tax increases are the solution to fixing Social Security's long-term financial problems. I remain skeptical about aspects of the progressive indexing proposal. While I too believe we need to take action to protect our most vulnerable seniors, I do not believe that progressive indexing plan I have seen so far is in the best interest of the people I represent in Staten Island and Brooklyn. It is not a proposal right now I am inclined to support.

The issue of personal accounts has generated the greatest amount of controversy. I believe that Congress's priority is to ensure the long-term solvency of Social Security. Therefore, I believe we need to focus on issues of solvency ahead of all other issues related to Social Security, including personal accounts. As I have said many times before, I can support a reform plan with or without personal accounts, provided it is the right plan to restore Social Security to firm financial footing, and protects the people of Staten Island and Brooklyn, and, of course, all Americans.

At this time, I am watching the fine work of this Committee and Subcommittee, and I commend you for doing this again—awaiting the opportunity to review all the plans put forward and look at which plan, if any, guarantees Social Security will be solvent today, 50 years from today, and 100 years from today if possible. I strongly commend the Committee for its attention to issues of retirement security, an area I too am exploring in great detail. I believe Social Security reform must include enhancements to other savings vehi-

cles, such as increasing contribution levels to IRAs, 401Ks, and look forward to working with you, Mr. Chairman, Chairman Thomas, and all Members of Congress, Democrats and Republicans, to ensure that the American people are secure in their retirement. With that, I thank you very much.

Chairman MCCRERY. Thank you, Mr. Fossella. Mr. Levin, I know you join me in thanking all of our colleagues who came forward today with thoughts and ideas. Frankly, many of the thoughts we had were in opposition to the President's proposals and in opposition to perceived proposals of some Republicans. Despite what some may consider to be negative comments that were made, I consider them to be constructive. I am certainly listening and I know Chairman Thomas and my other Republican colleagues are listening. The gentleman from New York, who just spoke, is a Republican and also expressed some concerns. I can assure you, we are listening, and we hope to address many if not all of those concerns. Mr. Spratt talked from a fiscal standpoint and made some excellent points. I hope that we can address some of the points that he made as well as we go forward.

It would be nice if we could get together at some point and talk constructively about how we answer those concerns, and I am looking forward to that. I thought today's hearing was very good, and I appreciate very much so many Members coming forward and sharing with us their thoughts. Mr. Levin?

Mr. LEVIN. I don't really have much to add. I think it was a very useful afternoon. I just urge that everybody take note not only of the quantity of feeling but the intensity of feeling. When we say that the President's insistence on private accounts stands in the way of getting down to business on a bipartisan basis, that isn't political, it is what we believe in. We would believe in it if the public did not agree with us. It does. When we go home, the more we learn from our constituents, the stronger we feel. So, I appreciate your words, Mr. Chairman, and I would hope we would have indeed not only listened today but learned. Thank you very much.

Chairman MCCRERY. Well, in fact I did listen. Thankfully, some of the witnesses who objected to personal accounts actually went into some detail about why they objected to personal accounts. It is those notes that I made and hope to consider as we go forward in trying to construct a plan. So, I thought it was very helpful. Thank you. The hearing is adjourned.

[Whereupon, at 5:14 p.m., the Subcommittee was adjourned.]

[Submissions for the record follow:]

Statement of Donald Anderson, Harpswell, Maine

Stealing my Social Security

For years I received notices from Social Security that I would receive a certain pension amount from SS. I used this info in my retirement planning.

About three years before I retired, I learned at a state retirement seminar that that was not true. Not true if I were to receive a state pension. I was told SS would reduce my SS amount by about 60%. Of course, I learned nothing about this from SS!

Because of this shortfall, I continued working past my 65th birthday, though that was not my original plan. When I turned 65, I applied to start my SS pension and got the small amount of about \$407/month.

I am now retired. SS has reduced my monthly payment by 56% because I am "double dipping"—their word.

My word—STEALING. I earned that money. If I had a pension from a private employer, SS wouldn't reduce my SS pension. As I said, I was depending on that money for my retirement. I find it difficult to pay my bills without that money.

This is most unfair. It angers me. The government is reducing my pension so it has money to give to the top 5% for tax cuts. Or to fund that illegal Iraqi war.

SS is a safety net for tens of millions. By subjecting me to the unfair GPO/WEP provisions, Congress has cut a hole in my safety net.

I expect Congress to quickly repeal the GPO/WEP provisions.

Statement of David S. Cluley, Grand Rapids, Michigan

The current discussions regarding Social Security reform are timely and necessary. However, many of the ideas currently being circulated are more complicated than they need be.

When originally conceived, Social Security was intended to provide a safety net for those unable to provide for their own retirement. Social Security benefits were never intended to be paid to those who had adequate resources to support them in their retirement.

Social Security needs to be brought back to its roots and serve as a supplemental or full retirement benefit for those unable to adequately provide for their own retirement. Those who are able to provide for their own retirement should not receive any retirement benefit from Social Security unless their income falls below a stipulated threshold.

To this end, the President is correct to be talking about private accounts. Private accounts will provide retirement funding for those able to save for their retirement.

These private accounts already exist. They are 401(k)'s, TSA's, HSA's, and all forms of IRA's. From my perspective, there is no need to create additional private accounts. Some adjustments of the tax code may be all that is needed to permit these accounts to achieve the ends desired under Social Security reform.

The following steps are proposed to reform Social Security:

- 1) Eliminate the cap on earnings. Tax all earnings equally, no matter how large an individual's income may be.
- 2) Reduce the payroll tax rate by 25%, and cap employer contributions for employees at the \$250,000 income level.
- 3) Means test payment of retirement benefits.

These three simple steps will produce the following benefits:

- 1) Removing the earnings cap will increase the revenue available to Social Security.
- 2) Reducing the payroll tax rate will sweeten an otherwise bitter pill for the wealthy and provide a tax break that will free up funds for current payroll tax payers. The income produced by this tax break will spur additional spending in the economy and/or provide funds that people can use to fund the private accounts that already exist; namely, IRA's, 401(k)'s, TSA's, and HSA's. No new private accounts need be created. This will avoid having to address the transition costs and their attendant impact on the deficit. Also, employers will have additional dollars for capital expenditures or employee salaries and benefits.
- 3) Applying a means test for benefits will ensure that benefits are paid only to those who truly need them. This was the original purpose of Social Security. It was never intended to provide a benefit to all retirees, but only to those who were unable to provide for themselves.

Means testing will conserve funds for those who truly need them both now and well into the future. The precedent for means testing has been established in the Medicare Prescription Drug and Modernization Act for the Part B Medicare premiums.

In addition, means testing will obviate the earnings limitations currently placed upon retirees until they reach age 70. People could earn as much or as little as they please without jeopardizing their Social Security benefit.

It is recommended a phase out of retirement benefit eligibility be implemented that is based upon adjusted gross income similar to the tax deductibility phase out for tax deductible IRA contributions. In this manner, individual eligibility would ebb and flow each year and benefits would be triggered based upon financial status for the previous year as demonstrated by the individual's or couple's income tax returns.

If implemented, these changes should guarantee the future solvency of Social Security indefinitely. The Survivor's and Disability portions of the program will also be assured. In addition, there may be sufficient reserves to help fund the Medicare program without jeopardizing the future of Social Security. As a result, it may be possible to eliminate the Medicare tax as well.

Chairman Thomas, these three steps are simple to implement and will achieve the desired results. I urge you and your committee to give them serious consideration.

Statement of Joyce R. Elia, Mission Viejo, California

BRIEFING PAPER RE HR 147 and S 619

SOCIAL SECURITY FAIRNESS ACT

On December 16, 1773, early settlers to this country staged a Tea Party in Boston to demonstrate their unwillingness to be unfairly taxed. It was a fairly small protest. 232 years later, a much larger group of American voters (public workers and teachers, active and retired) wishes to clearly and emphatically send a message to the President and Congress, that **THEY** are unwilling to continue to be unfairly taxed.

MYTH #1: The myth is that this is *unearned* double dipping.

TRUTH: The Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) laws prevent public workers and teachers from receiving their justly earned retirement benefits. **The two laws cause public workers and teachers to DOUBLE PAY but receive single benefits.** The various pension funds of public workers and teachers are primarily self-funded with very little in the way of outside contributions. The outside contributions come from LOCAL not FEDERAL monies—no relation to Social Security monies.

EXAMPLE: A working person is required by law to hold two insurance policies. After a number of years of paying the premiums, one of the insurance companies notifies the worker that he will no longer be covered under the policy, but will be compelled by law to continue paying for it.

On December 27, 2002, Fox Channel Headline News reported that the Social Security Administration currently has agreements with 20 countries, which permit foreign nationals who pay into retirement systems in their home countries and the United States, to collect benefits from both sources. The story reported there is currently discussion to extend this practice to Mexican nationals as well.

The Federal government should recognize naturally born American citizens who work as teachers and public employees as well as foreign nationals.

MYTH #2: It is a myth that over the long-term the federal government saves money by denying public employees and teachers earned Social Security benefits.

TRUTH: It is true that the National Education Association reports that affected recipients lose an average of \$3,600 a year due to the GPO—an amount that can place a recipient below the poverty level. When individuals do not have adequate dollars to meet their most basic needs, they stop seeking preventative medical care, are unable to fill needed prescription drugs, have inadequate nutrition and often are forced to live in less than sanitary and unsafe conditions. All of these workers have paid for benefits that these two laws prevent them from receiving. Many of these workers are single parents or women who need their paid-for Social Security benefits to meet basic expenses.

RESULT: *There is no monetary savings.* The government will need to provide financial assistance to these individuals through more expensive government programs (welfare, food stamps, medical plans, long-term care and housing assistance). It is better to remove discriminatory prohibitions to earned benefits so that seniors can avoid seeking emergency care for catastrophic illness. The added dollars will be put back into the economy and the discriminatory effect of these statutes would be eliminated.

FACT: Workers have not been informed of this legislation by government employers and teaching associations and are misled by Social Security estimate statements which do not reflect these offsets. Most employees are unaware that they have **relinquished** their entitlement to earned or spousal Social Security dollars until they are within a few years of retirement and attend a retirement planning session. At that time they are devastated to learn that they will not be receiving their anticipated Social Security funds. **These are workers who have**

faithfully paid their full contributions to a system that takes their money and provides no benefits.

REALITY: Americans have been told for decades by government experts that it is an individual's responsibility not to rely solely on Social Security for their retirement incomes. Often, when children leave the nest, the wife/mother will seek outside employment to assist her husband in building their retirement. When these individuals choose to become public employees or return to the teaching profession, they are not told by their employers (through non-disclosure of the impacts of the GPO and WEP) that the monies they contribute to separate pension plans will not be returned to them *in addition to* earned Social Security benefits.

Private sector individuals may collect multiple pensions (many through employer-only contributions) PLUS earned Social Security benefits....why the distinction for public workers and teachers?

RESULT: As more and more public workers and qualified teachers become aware of the impact of this unfair and discriminatory legislation, they will be less inclined to apply for jobs in those areas. This country already faces a critical shortage of skilled teachers. The condition is certain to worsen. Fewer teachers will choose to return to their classrooms after extended leaves to raise their children, while young people will be less inclined to consider a teaching career. States, counties and cities will find smaller and smaller pools of willing/skilled applicants to staff government offices, courts, libraries, airports, divisions of Motor Vehicles, transportation departments, etc.

Non-partisan issue. Goes beyond politics. Voters of all political affiliations are affected. (*This is a national problem—there are affected people in ALL states. The number of people impacted across the country is growing every day as more and more people reach retirement age.*) This is the same group of voters (baby boom) that were willing to stage protests in the 1960's to bring their Acauses to the street to effect change by gaining national attention for unfair government practices. As more voters become aware of these unjust laws and their impacts, they will be angry and seek to blame elected officials.

Most Americans are unaware that promised Social Security benefits are not legally guaranteed. They expect adequate Social Security benefits and assume government will pay all monies due because government has faithfully collected their Acontributions. Especially when it is widely known that the federal government extends Social Security benefits to people who have **NEVER** paid into the system.

These laws are not understood. It makes retirement Aplaning inaccurate. (*Many workers rely on misleading Social Security Administration statements that fail to take into account the GPO and WEP when projecting benefits.*) It makes the SSA information statements a lie because workers are led to believe they will receive these funds because the government is or has taken their money. This is, in essence, a government Abait and switch tactic.

Severely impacts women. Women receive only **one-half the average** pension benefits received by men. When they attempt to collect anticipated, earned Social Security benefits and discover that their benefits are substantially reduced, they find themselves below the poverty level, after a lifetime of work.

Working wives should have the same rights to their spouse's **full** benefits as non-working wives. (*The GPO/WEP causes affected employees to lose up to 60% of the benefits they earned themselves*)

Widows should receive **full** Social Security spousal benefits. The deceased spouse worked his entire life to provide for his widow. His benefits are **her** benefits.

Laws are arbitrary and selective. The burden falls squarely on pocketbooks/wallets of certain public employees and teachers. (*9 out of 10 public employees affected by the GPO/WEP lose their entire spousal benefit, even though their spouse paid Social Security taxes for many years while non-affected workers who have paid into multiple private retirement systems are not affected by these laws. The discrimination exists only for those who work in the public's interest.*)

These laws are discriminatory, punitive and create a climate of bad faith. They have caused an unjust and unfair inequity between public and private pension recipients. The laws diminish the value of a public employee's or teacher's contribution to this country in relation to the value placed on the contributions of workers in the private sector . . . for what reason?

REQUEST: We want the law applied equally to all employees. The only way for this to be accomplished is for these two statutes to be repealed. We urge your support and the support of all of Congress and the President for passage of HR 147 and S 619.

President Bush has claimed that he wants to bring fairness to the taxation of the American people. Support of HR 147 and S 619 is a perfect

place for him to right a wrong and bring equity to an unrepresented and growing body of unfairly taxed voters.

As the Committee reviews the multitude of issues associated with Social Security, I ask members to consider correcting a "fix" that was initiated in 1983, and, to also not make similar mistakes this time around (such as privatization which will line the pockets of Wall Street and cost billions of dollars to implement). Congress has made the same mistake as many corporations recently in the news—they have "spent" the hard-earned pension funds of workers during the stock market's heyday and have now been "caught short". Workers in this country have had enough of the corporate greed and fiscal irresponsibility of government. We are tired of "paying" for everyone's mistakes, while the corporate CEOs continue to live the "good life" with no understanding, and with a complete lack of conscience, of how the "real" people in this country live.

The private sector continues to follow the government's lead in cheating employees out of their retirement benefits (United Airlines, possibly General Motors, to name a few), with the government's blessing. At the same time, like Congress, the retirements for the "chosen few" are preserved. The hardworking, tax-paying individuals of this country deserve better and we expect you to act responsibly. President Bush espouses a Christian ethic. There is absolutely nothing "Christian" about defrauding American workers with high taxes and erosion of their pensions.

As a current government (court) employee and former private sector employee, I am seeking your support of HR 147, "Social Security Fairness Act," to eliminate the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) to Social Security. This legislation was enacted in 1983, during a period when Congress was looking for ways to reduce the cost of Social Security. Their decision to place that burden on the backs of government workers and teachers has created a fraudulent and discriminatory solution which wrecks financial havoc on the lives of affected individuals.

The GPO and WEP will greatly affect mine and millions of other Americans' ability to collect the full Social Security benefits that they have earned and to which they are entitled. This is a non-partisan issue that transcends politics and affects voters of all parties.

Three years ago, a co-worker returned from her "retirement planning session" crestfallen to learn that the small pension which she had earned working for the Orange County Superior Court was going to dramatically impact the receipt of her earned (as well as her ability to collect her husband's earned) social security benefits. Her situation will become worse, should her spouse predecease her. She will not be eligible for **any** spousal benefits, which he worked a lifetime to earn in his effort to provide for his wife. At the time, *I was totally unaware of these two laws and their impacts*. I had worked in the private sector for many years before "retiring" to raise a family.

When I returned to the workforce in 1994, to work as a Senior Administrative Assistant to the CEO of the South Orange County Municipal Court (unified to Superior Court in 1998), *I was not informed by the County/Court* that paying into the County retirement system would negatively impact my ability to collect mine and/or my husband's hard-earned Social Security benefits. The County retirement plan is predominantly self-funded by employees, with only a small portion of the contribution coming from LOCAL (not Federal) taxes. I erroneously assumed that any pension I earned would *supplement* my earned Social Security benefits. These laws force me to either leave my job, friends and an important part of my life prior to ten years of service (vesting) or relinquish my own and my spousal rights to Social Security. It punishes me for doing what the government told me to do—plan for the future. (I would have been better off staying at home and letting the government subsidize me.) The outcome is discriminatory and dishonest, as well as disheartening, to a loyal hard-working employee.

The laws are arbitrary and selective—being particularly discriminatory to women. Women receive only half the average pension benefits received by men and these laws further reduce that small sum.

Please preserve teachers' and government workers' retirement benefits that they have paid for and deserve by passing HR147, which will repeal legislation which in actuality is "**legalized fraud**," (i.e., the government has taken, or in many cases, continues to take monies via social security taxation, which it has no intention of returning by way of future benefits). Numerous teachers and public workers (many of whom are single Moms), have part-time employment to make ends meet. From those private-sector checks, social security is being deducted . . . when under cur-

rent laws, that money will never be returned. If private companies acted in such a manner, they would be charged with FRAUD.

I have included a briefing paper which expands on the legislation's impacts.

I urge Congress' support and passage of this important legislation. I also urge Congress to look into other areas for savings: reduction/restructuring of Congressional retirement benefits; reduction in foreign national benefits, fairer taxation, to name but a few.

I do not support private accounts OR melding government/teacher pensions into Social Security. This practice would place yet another undue burden on this class of individuals. Their pensions should be treated in the same manner as private sector retirement plans—separate and apart from Social Security.

Additionally, Congress makes it increasingly difficult for individuals and families to save for their retirement, especially when the *interest* on SAVINGS accounts are taxed.

Statement of Victor T. Krolik, Orange, California

I retired from Orange County in 1995 and the GPO/WEP law greatly affected the dollar benefit amount in my Social Security pension. Even though I had my units in prior to this employ, because I elected to receive the government (County) pension, I was 'punished' with a reduction of my social security benefit amount by \$350.+ a month. As you know, this amount of money over the ten year period of retirement would have been very helpful to my wife and I with the high cost of living, medical and prescription costs, and so forth that are so cumbersome in one's senior years.

I urge you to support McKeon's bill H.R.147 and ask you to please urge your constituents to appeal the GPO/WEP law by supporting the H.R. 147 bill passage.

My wife and I and our parents before us and our siblings worked all our lives as good citizens and taxpayers of this country. It is difficult to comprehend how others enter the country and receive so many benefits from our government and we are 'left out in the cold'

Thank you for your kind attention in this matter.

Statement of Steve Pluta, Walnut Creek, California

I am opposed to President Bush's proposal for social security private accounts.

Increasing private ownership of retirement assets can be accomplished better outside of social security by adding incentives to the tax code, and by increasing the incentives for and flexibility of IRA's and 401K's, and similar or new retirement savings vehicles.

I am also opposed to President Bush's proposal to transfer social security benefits from middle class wage earners to lower income workers.

Should it be necessary to redistribute wealth, then increasing the cap on wages subject to social security would be a more fair and progressive approach.

I support increasing the retirement age as this recognizes the increase in life expectancies.

President Bush has said that those near retirement would not be affected by his proposed social security changes, and I believe I fall into that class. For the record I am 58 years of age.

Thank you for this opportunity to contribute to your Committee hearings.

Statement of Larrabee M. Smith, Holmdel, New Jersey

I offer the following comments on the proposals for changing Social Security (SS) and the claimed need for a change. I was motivated to write these comments by a press conference your Chairman, Congressman Thomas, held after the President's Press Conference last April 28. I was very disturbed by both. I have tried to send copies of these comments (this has been clean up a little) to all members of the House Ways and Means Committee but I don't believe I was successful. I believe I demonstrate that Private Accounts will make any financial problem with SS (if

one exists) worse and adversely impact our economy. I further explain why, at this time, there is no reasonable basis for concluding that SS is headed for bankruptcy.

1) Private account option will make any shortfall worse: In the long term, the private account option just makes the shortfall, if one really exists, worse. Clearly, it will be the more fortunate that choose the private account option and therefore, because the benefits are disproportionately larger for the less fortunate, the revenue stream to support those on the present system will be adversely impacted. There will a disproportionate reduction in the revenue stream for SS.

2) Means test will increase any shortfall: The Presidents proposal to introduce a Means Test algorithm would just add additionally to any shortfall in revenues. It would increase the disproportional distribution of benefits. And, in addition, It would motivate more of our more fortunate to opt for a private account. This would increase any shortfall both by the disproportional increase in benefits to be paid and the disproportionate reduction in revenues for SS. It is clear that the President's motivation for proposing the means test gimmick was to increase the number of young voters supporting his private account proposal.

3) Cost of a transition to saving plan prohibitive: While a saving-for-pension plan might be superior to our present pay-as-you-go plan, unless benefits are reduced for those continuing to receive them, the transition cost would be prohibitive even if you spread the transition over 200 years. In addition, Goldman Sachs has estimated that, by 2050, the private accounts under the Administrations proposal would constitute 25 percent of the total value of all stocks in the market. Imagine what a complete switch to a saving-for-pension plan would mean. I can't imagine it being in our interest for our Government to have any control over such a large part of our markets. In any event, before considering a change in the plan that would increase debt, our debt must be reduced.

4) Money for Private accounts must be borrowed from the public: Every dollar that is put into a private account prior to 2042 or so will have to be replaced by a dollar borrowed from the public, unless you do not provide for meeting our obligation to the Baby Boomers (BB) and cut their benefits. The adequacy of the Trust Fund balance to cover the benefits of the BBs depends upon the surplus revenue stream being maintained and the interest on the Special Treasuries in the Fund being paid until the Trust Fund balance is depleted and the BBs have essentially all passed away. A delay in providing the surplus revenues or interest payments would reduce the interest and the fund balance. Therefore, it is necessary to replace any drain in tax revenues with simultaneous injection of money from the Treasury and this means borrowing from the public.

If you want to play games with private accounts, you should acknowledge that you are borrowing the funds from the public to give to those who choose the private account option in exchange for an understanding that their benefits, when they retire, will be correspondingly reduced. You should leave their contributions to SS alone until about 2050, when the BBs have passed on, and be honest about what you are doing. Do you really believe that borrowing from the public to invest in our markets is viable way to build our economy? Hell No!!! Of course, the burden of debt you incur will have to be borne by everyone, not just those who opt for the private accounts. It is no wonder that some of our younger citizens look upon the option favorably. There are a lot of sick and greedy people but I find it hard to believe that the majority would support the option if they understood how the accounts will be financed.

In addition, I would add that DEFICITS DO COUNT!

Increased borrowing means an increase in the supply of treasuries and an increase in supply means and increase in interest rates will be required to find buyers. This will have a negative impact on our economy and increase deficits and so on. Among its undesirable impacts will be its negative impact on the retirement savings of everyone.

5) Private accounts will be negative for some: The argument that private accounts will reward all of those who opt for them is total nonsense. And, if we don't soon do something about our rapidly increasing debt, we will find that investments in the markets fall to lows not seen in the last 30 years or worse. I spent 40 years working with some of the smartest people in the world at a top communications research and development company. Many colleagues invested in the markets. Further, I live in an area with many Wall Streeters. I'm very aware of what happens to money invested in the markets. Some people are lucky and some are not. The median gain on investments is probably less than zero. Claims that everyone will benefit neglect the impact of real inflation and assume that average growth and costs from the past. Few of you may remember, but consider what happened during the 70s to those who retired in the 60s and had their retirement savings in bond funds.

And, the worst of the claims concerning private accounts is that they will permit owners to leave what's left to their children. Sure, they could. But who knows how long he or she is going to live when they retire. Unless they are rich and their SS benefit is of no consequence, they will put what they have into a vehicle that will pay them as long as they live, a vehicle that operates like a pension fund which depends on some passing one early to provide for those who don't. And you can be sure that some of these will be managed like the United Airlines Fund or worse and go bankrupt. The financial world is full of chuck holes and the less fortunate among us hit them more often than not. SS was suppose to provide a **safety net** and you have an obligation to assure that it does.

6) Projections of a SS revenue short fall are rank speculation: The SS Trustees' long-range projections for SS's financial condition and those of the CBO are, at best, pure speculation and of the same quality as the CBO's projections, of a few years ago, that we would have budget indefinitely. No one should accept the projection of the SS actuary as fact; though our President and Congressman Thomas seem to accept it without question. Think about who the BBs are and what they represent. They represent a bubble in birth rate resulting from the Depression of the 30s and the War. A rational person would recognize that the birth rate would drop to lower normal level after 1964, the last year for births of the BB generation. Yet, the assumptions on which the projections are based treat this reduction as though it is a trend that will continue. The 1960 census data indicates the end of bubble but doesn't support the assumption without a biased eye. A Table of key numbers from the census is available at: http://factfinder.census.gov/servlet/QTTTable?_bm=y&geo_id=D&qr_name=DEC_2000_SF1_U_QTP1&ds_name=D&lang=en.

The following is from the latest SS Trustees Report: "The primary reason that the OASDI cost rate will increase rapidly between 2010 and 2030 is that, as the large BB generation born in the years 1946 through 1964 retires, the number of beneficiaries will increase much more rapidly than the number of workers. The estimated number of workers per beneficiary is shown in figure IL.D3. In 2004, there were about 3.3 workers for every OASDI beneficiary. The BB generation will have largely retired by 2030, and the projected ratio of workers to beneficiaries will be only 2.2 at that time. Thereafter, the number of workers per beneficiary will slowly decline, and the OASDI cost rate will continue to increase."

Why hasn't someone observed that the BB bubble is responsible for the reduction in the ratio? Why is this a problem since it was the reason for the increases, during the Reagan and Bush Sr. Administrations, in the tax rate? Why hasn't someone asked why the relative number of retirees increases when the Baby Boomers (BBs) start to retire but doesn't decrease after they have passed away? The BBs represent a bubble in birth rate. Please ask why this bubble has a beginning but no ending in its impact on number of retirees? Why do they project a lower birthrate after the BBs but do not reflect it in the numbers of retirees? There should be at least a dip. Yes, I'm aware that we are living longer but this doesn't justify the assumption that the bubble doesn't have an end. And, if our living longer creates a serious imbalance between SS revenues and the cost of benefits, a further increase in the retirement age would appear to be appropriate.

The last sentence of the quotation is just plain wrong. It should increase. In addition, if you look further into the report you see that the Trustees demonstrate that a small change in assumptions results in a projection suggesting that there will not be a shortfall at all. Why do you treat the median estimate of the Trustee like it is reality? The projections are, at best, crude guesstimates and appear to be biased to prove a conclusion written before the analysis was undertaken.

You must be aware that many people are now concerned that English will be replaced by Spanish as our national language because of the rapid growth of our Latino population. The concern is not only about immigration but the higher birth rate of Latinos. I don't know what the birth rate will be in 2050 and neither does anyone else but the SS's actuary's assumption of a lowering birth rate makes no sense at all. (It is also disturbing that most of those who are expressing grave concern about the issue are among the loudest supporters of private accounts.)

The estimates also depend in part on the economic conditions in the future. We all know how good the CBO is at such projections—REALLY BAD!! Please use some common sense and recognize that the projections are crude guesstimates at best.

7) A failure to honor the Special Treasuries in the SS Trust Fund would be stealing: To suggest, as the President did in his remarks on 28th of April, that the SS Trust Fund is full of worthless IOUs is criminal. Allen Abelson, in the following week's Barron's dealt with this issue better than I could. He wrote: "You don't have to be a woebegone Democrat (sorry for the redundancy) to feel the president is indulging the politician's habit, as some wise soul once put it, of being eco-

nomical with the truth when he implies that Uncle Sam's promissory notes—the surplus accumulating in Social Security's coffers—are not worth the paper they're written on. If so, that would seemingly also describe the value of the trillions—or maybe zillions—of Treasury obligations held by our other creditors, humble and grand, individuals and institutions, the globe over.

And if he really believes those IOUs are just a stack of paper, it seems more than a little paradoxical for Mr. Bush to seek to reassure the legions of doubters among the citizenry about their own investing capabilities, as he did in his prime-time remarks Thursday, by emphasizing that one of the choices for participants in his proposed private accounts would “consist entirely of Treasury bonds.” Through some peculiar form of alchemy, what's dross in the figurative vaults of Social Security becomes gilt-edged in the hands of Social Security's beneficiaries.”

8) The balance in the Trust Fund is largely BBs savings: The SS tax rate increases of the Reagan and Bush Sr. years were intended to create a surplus that would assure that there were funds to pay the benefits of the BBs. The Baby Boomers contributed to the surplus as have many of us who are fathers of BBs as well as some children of BBs. When we and they paid the increased taxes, we understood that we were providing savings that would be used to help pay the benefits of the BBs when they retire. Therefore, the present SS Trust Fund (TF) balance is largely savings of and for the BBs. The increases were largely the result of the work of the Greenspan Commission of which your Chairman, Congressman Thomas, was apparently a member. The projection of both the SS Trustees and the CBO indicate that the surplus is adequate to cover all of the BBs benefits. And, while neither projection is an absolute, there is no reason, at this time, to doubt this conclusion. To change their benefits at this time would be the worst sell-out fraud of our time. How can such an action even be considered? The youngest are a long way from 55 today. BBs range in age from 41 through 60. What kind of subhuman would deny any of them their benefits?

Any action that fails to provide full benefits to all Baby Boomers (BBs) would be the worst of crimes. It would be stealing. Stealing the savings of the BBs would be legalized theft, the worst kind of theft. To reduce the revenue flow such that the surplus doesn't grow as it should, would be another form of stealing from the BBs. It would also be stealing from their children because the system would fail sooner (if it is going to fail) and impact benefits they should receive. Since I paid, with the thought that I was helping to provide savings for the BBs to help with their retirement, the increased SS tax for a significant number of years before I retired, you would also be stealing from me and other fathers of BBs like me.

Your Chairman had to know, as a member of the Greenspan Commission, that the surplus would be invested in Special Treasuries and that it would have to be redeemed to pay benefits. To, at this time, act as though something terrible is going to happen in 2017 or so, when redemptions are projected to start, is downright deceitful and dishonest. Obviously, I haven't seen the material from the meetings of the Commission but it must have anticipated the day when redemptions would start.

9) Keying benefits to CPI: What does the Administration mean when it speaks of keying benefits to the CPI because it doesn't rise as fast as earnings? It is continually mentioned by the media. What are they going to do that is different than is done today? They seem to be talking about keying the initial level of the benefit that a retiree receives to the CPI. This doesn't make any sense.

It is bad enough that the CPI is manipulated to minimize the adjustments in SS benefits for those already retired. If the CPI were not manipulated by hedonic adjustments and mistreating the cost of housing, the CPI would probably rise essentially as fast as earnings, at least as fast as my cost of living. With the starting level of benefits keyed to the CPI and revenues keyed to earnings, it appears likely that any short fall should become a surplus. I'm sure many of you are aware that Bill Gross, the head of PIMCO, has estimated that manipulation of the CPI has reduced benefits for those who retired in 1980 by more than 40 percent already. (It has also made our GDP numbers look better than reality.) I'm also aware that, during the past few years, the CPI has risen faster than wages; particularly for the least fortunate among us; so it is possible that keying benefits (starting) to the CPI may backfire on the Administration and actually help the least fortunate, which would be desirable.

10) Unified Budget is the problem: If you wanted to do something constructive about our Governments commitments to spend, you should start by eliminating the Unified Budget. Once the public really understood how it hides the real deficit, they would make sure that anyone supporting it is run out of town.

I have never heard of any of you complaining about the fraudulent Unified Budget nor have I heard of any of you mentioning that the real deficit is not the Unified

Deficit but rather a number much larger. If you subtract the surplus payroll tax revenues and add the interest paid on the debt in the associated Trust Funds, the real deficit in 2004 was over 650 billion and it will be larger in 2005. It is becoming clear that the Administration is aware of the growing deficits and believes that the way to deal with them is to inflate away the debt. The Treasury is now considering re-instituting the 30-year bond. It is apparent that they need it to prevent the interest on the debt from growing with every refinancing as interest rates increase. Please clear the air and work to eliminate the Unified Budget before messing with SS. The former is a problem today but latter may never become a problem. If we could reduce our debt, we might get into a position where we could actually afford to move to a savings-for-pension plan.

Statement of Matthew Swarthout, Livonia, Michigan

Please consider a change in the payroll tax; that part of the social security tax that businesses must pay, and the additional social security tax that self employed individuals must pay. And to offset the lost revenues please consider a national retail sales tax.

I'm trying to start a new business, but expenses are greater and revenue is less than anticipated. Help is needed, and a reduction in the 12.4% social security tax for self employed individuals would help my business and others like mine, in getting started. Also, I believe elimination of the payroll tax would improve employment and, for global enterprises, improve the global competitiveness of American businesses.

My suggestion to introduce the national sales tax to offset roughly \$400 billion in lost revenue would, I believe, be good for American businesses and the U.S. economy. The sales tax could be excluded for essentials such as food, health care, rent/home, and second-hand purchases. And even with those exclusions the tax may be only 8%.

Thank you for your consideration.



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